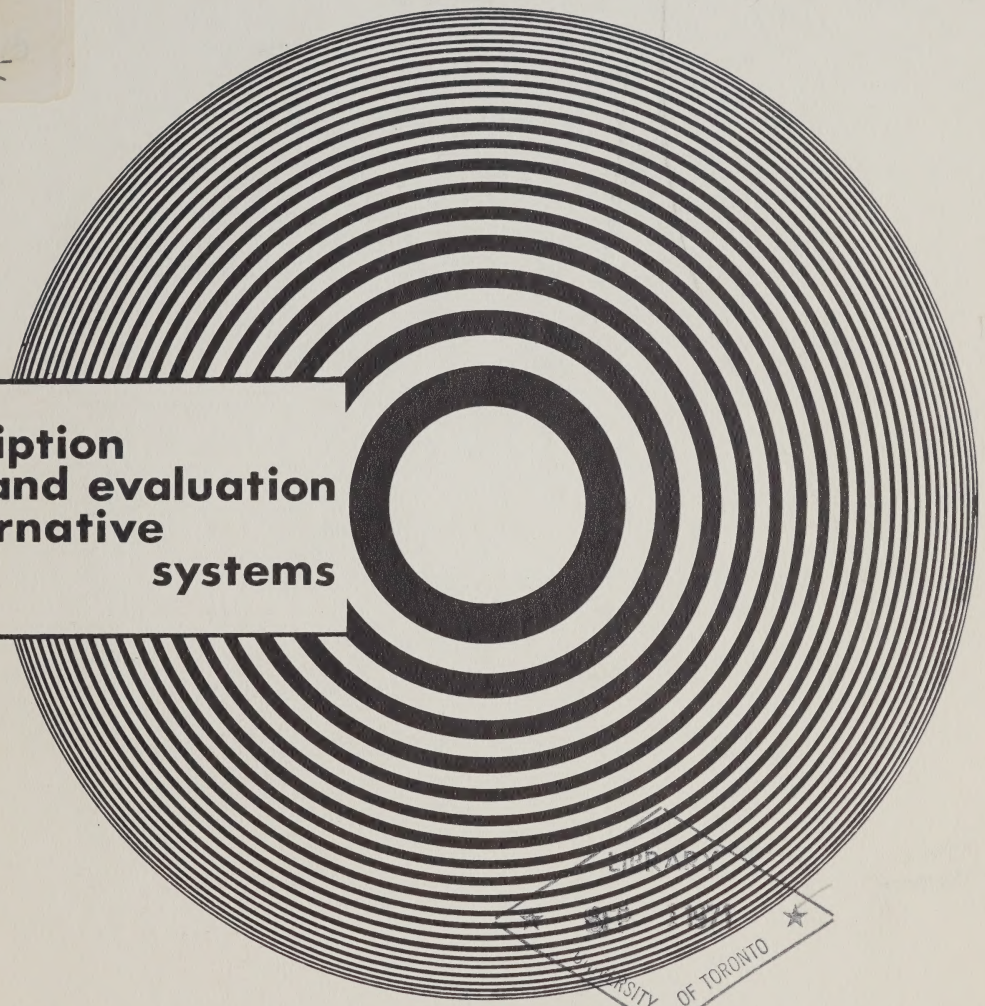
RAPESEED—MARKETING

a description and evaluation of alternative systems



A Report from the Rapeseed Marketing Committee appointed by the Honourable Otto E. Lang, Minister Responsible for the Canadian Wheat Board.

RAPESEED MARKETING

A DESCRIPTION AND EVALUATION

OF ALTERNATIVE SYSTEMS

A Report From:

RAPESEED MARKETING COMMITTEE

Appointed By:

The Honourable Otto E. Lang

Minister Responsible for the Canadian Wheat Board

April, 1971

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April 28, 1971.

The Honourable Otto E. Lang, M.P.
Minister Responsible for The Canadian Wheat Board
Government of Canada
Ottawa, Ontario

Dear Mr. Lang:

In accordance with your request, the Rapeseed Marketing Committee has arranged for a report to be prepared that describes the alternative marketing systems for rapeseed and the advantages and disadvantages of each.

The Committee selected and directed a team of research consultants for the project. The task was complex but we believe the attached report sets out the alternative systems in an objective manner.

Respectfully,

James McAnsh,
Chairman

Paul Babey

Forrest Hetland

A. INTRODUCTION

In April 1970, the Honourable Otto Lang, Minister Responsible for the Canadian Wheat Board, appointed a Rapeseed Marketing Committee "to determine the marketing system best suited for expanding Canadian exports of rapeseed". The Committee members are James McAnsh, Executive Director, Rapeseed Association of Canada, Vancouver, (Chairman); Forrest Hetland, President, Rapeseed Growers Association of Saskatchewan, Naicam, Saskatchewan; and, Paul Babey, President, UNIFARM, Edmonton.

Within the few weeks available for its work, the Committee was able to make several specific recommendations for immediate action but it concluded that more research was needed into the alternative systems for marketing Canadian rapeseed in future. Accordingly, the Honourable Mr. Lang, through the Grains Group, asked the Committee to have the necessary research carried out. The Committee commissioned Dr. J.J. Richter of the University of Alberta and P.S. Ross & Partners, Management Consultants, (working in association with Dr. W.J. Craddock of the University of Manitoba) to make an independent and objective assessment of the alternatives. Parts I and II of the report were prepared by P.S. Ross & Partners and Part III by Dr. J.J. Richter. Mr. Barry D. McDougall of P.S. Ross & Partners acted as Research and Report Co-ordinator for the Committee.

This report presents the consolidated findings of the consulting team. The Committee has supervised the research program to ensure that all the key aspects have been covered and that the concept, operation, advantages and disadvantages of each system have been defined.

The Committee wishes to acknowledge the valuable assistance provided by many officials of the Grains Group, the Canadian Wheat Board, the Board of Grain Commissioners of Canada (Canadian Grain Commission), the Winnipeg Grain Exchange, the Winnipeg Street Price Committee, the Canada Department of Agriculture, the Federal Department of Industry, Trade and Commerce, the Dominion Bureau of Statistics; country elevator, terminal elevator, domestic crushing and export firms; and numerous other organizations.

B. PURPOSE AND SCOPE

The purpose of this report is to provide an objective description and evaluation of alternative marketing systems for Canadian rapeseed.

The terms of reference for the study were derived from the Rapeseed Marketing Committee Report, June 1970. The following extract from that Report describes the situation leading to this subsequent study:

> "It is recognized that many requests from producers have been made through their organizations for a change in the present marketing system for oilseed crops. The Committee is of the opinion, however, that there is among producers, a lack of information and understanding of various systems now operating in the marketing of their crops. It is felt, therefore, that before producers can make an intelligent choice they must be provided with factual information on (a) the different systems now in use and (b) other alternative systems."

Insofar as the producer is concerned, the choice of marketing systems is fundamentally the difference between two marketing approches: open market or compulsory board marketing. There are alternatives with each and they have been considered in this report under the following categories, as defined by the Committee.

Open Market

* Competitive purchasing and selling by grain trade, with a futures market operating

* As above, with voluntary pooling arrangements with individual companies

Canadian Wheat Board System

* Canadian Wheat Board to be the sole purchaser from producers at an initial price and selling to agents or direct (as is the present practice for wheat)

* Canadian Wheat Board to be the sole purchaser from producers at an initial price and selling to agents or direct through futures market (as is the practice for oats and barley)

Separate Marketing Agency

* Producer board marketing including buying and selling

* Sole purchaser selling to the trade through futures market

The criterion for evaluating the alternatives might be philosophical or economic. The former is a matter of personal belief or political persuasion and has been excluded from this objective, economic analysis.

The Committee has defined three categories of evaluation criteria:

Selling Prices

The effectiveness of pricing rapeseed under each system to both the domestic and overseas market in competition with other oilseeds.

Risk Bearing

The effect of different systems on risk assumed by -

* The producers

* The handling companies, including country elevators, cleaning plants, crushers, terminal and others

* The buyer, both foreign and domestic

* The exporters

* The government

Marketing

The efficiency of each system in -

* Movement and Storage

* Servicing established customers, overseas and domestic

* Finding and maintaining new customers

* Product development and new uses

The report has been based on information made available from the Committee, as a result of its investigation and the experience of its individual members, supplemented by some original research and analysis by the Consultants. The overall research program has not been as extensive as would be desirable to fully explore the underlying causes of the adverse features of the present system or the ramifications of other systems. However, it has provided adequate information to explain the general situation.

A further complicating factor has been the numerous changes in operating procedures and regulations as well as in domestic and international markets which have significantly influenced the market situation. The research for this report was carried out in late 1970 and early 1971 prior to the passage of the new Canada Grain Act and the release of the report of the Canadian Grain Marketing Review Committee. The importance of these factors was recognized but it was not possible to evaluate their full impact prior to finalizing the research program.

A conscientious effort has been made to be objective in presenting the various systems. While the interpretation of the data has been done as scientifically as possible to minimize subjective judgement, there is less than ideal data available concerning the rapeseed marketing situation, domestic and international. However, an effort has been made throughout the report to recognize the problems deriving from this information deficiency.

In Part I of this report, the marketing challenge for rapeseed in the 1970's is outlined. Factors common to all systems such as the market outlook, production considerations, essential marketing functions, and expectations of any system are examined. In Part II, the open market system and voluntary pooling within the open market system are described and evaluated against the Committee's criteria. In Part III, compulsory board systems under two categories, Canadian Wheat Board and a producer marketing board, are similarly described and evaluated.

C. REPORT HIGHLIGHTS

The open market system is based on the concept of price discovery by the free play of supply and demand in the marketplace. The present system has only some of the characteristics of the theoretical open market system since it has been adapted to meet the realities of the Canadian political, agricultural and handling situation. An important feature of the open market system is the futures contract which provides a price protection mechanism and a forward price indicator. Voluntary pooling is an arrangement under the open market system designed to achieve an average annual price for producers wishing to participate in the pool.

A compulsory marketing board for rapeseed might be of two types: government controlled, for example, the Canadian Wheat Board, or producer controlled. Many features of these two types of compulsory board would be similar in the marketing of rapeseed. The prime difference would be the degree of producer control and participation.

The comparative advantages and disadvantages of each of these systems and sub-systems are shown in summary form in Exhibit 1.

COMPARATIVE ADVANTAGES & DISADVANTAGES OF ALTERNATIVE RAPESEED MARKETING SYSTEMS

OPEN MARKET

ADVANTAGES

* Price discovered freely by the bid and asked, demand/supply process, involving a large number of domestic and foreign buyers and sellers.
* Provides producers, grain trade and processors with market price indicators up to nine months in advance.
* Provides a system of price protection for processors, merchandisers, foreign buyers, and in some cases, producers.
* Present and future prices of rapeseed readily comparable to soybean oil and other competitive products.
* Utilizes the world wide sales and market intelligence capabilities of many Canadian and international trading companies.
* Provides an opportunity for a variety of marketing methods e.g. short term contracts, futures contracts, cash sales, etc., by producers and merchandisers and equally flexible purchasing by exporters, foreign buyers and domestic crushers.
* Limits direct role of government in the marketing process.
* Requires no subsidization on the part of government.
* Tends to encourage rationalization of production.
* Provides for attainment of efficiencies through competition in several of its elements.

DISADVANTAGES

* Apparent complexity because of poor communication of market mechanism and market information.
* Producers bear bulk of market risk on an individual basis.
* Apparent lack of adequate supervision and control which has permitted continuance of certain price features that adversely affect producers.
* Lack of a government guaranteed initial price.
* Does not provide for direct producer participation in the price discovery and marketing process.
* Limited influence over transport and storage but highly susceptible to their influence.
* Difficult to establish producer check-offs for market promotion and product research.
* No competition in establishing price paid to producers at the country elevator level.

VOLUNTARY POOLING

ADVANTAGES

* Marketing decisions shifted to pool operator.
* Equal price for all producers in the pool.
* Market risk is shared equally among producers in the pool.
* Larger blocks of supply assembled for more efficient marketing and application of pressure on other parties in the marketing process.
* Marketing management is strengthened.
* Freedom of choice for producers.
* Provides producers with one or more marketing performance yardsticks.
* Compatible with open market system.
* Provides a vehicle for better information on markets and marketing operations.
* Provides a vehicle for producer check-offs for market promotion and product research.
* Provides a stronger forward price indicator which improves expenditure planning by producers.
* All open market advantages apply in general.

DISADVANTAGES

* Difficulty in enforcing delivery contracts.
* Difficulty in showing results comparable to best market results (an unrealistic guideline sometimes used by producers).
* Lack of producer interest if market prices are better than initial payment.
* Lack of trade interest in company pools.
* Unequal annual prices between pool and non-pool producers.
* Check-off benefits received by non-pool as well as pool participants.
* Other open market disadvantages apply in varying degrees.

CANADIAN WHEAT BOARD

ADVANTAGES

* Equal and equitable access to markets for all producers.
* Average price for all producers.
* Use of Board buying power in domestic and export markets to:
  - -regulate the flow of supply to market according to market demands and in order to stabilize prices at a higher level
  - -obtain optimal returns from all sales through market and price differentiation (two price system).
* Provision for greater operational efficiency through one desk selling.
* Street prices set by CWB rather than trade Committees.
* Elimination of market inverses and speculation (except under CWB feed grains system).
* Facilitates long term, contractual trade arrangements on a large scale with domestic and foreign buyers.
* Facilitates product development and market promotion.
* Provision of production guides through initial price.
* Readily compatible with delivery quota and other CWB marketing control systems.
* Easily understood by producers and trade.

DISADVANTAGES

* Loss of individual marketing freedom by producer.
* Individual producer unable to take advantage of a temporary premium price.
* Average price for a commodity and grade may discourage initiative of individual producers.
* Prevents direct contracting by individual producer without Board approval.
* Loss of forward price indicator features of open market.
* Eliminates possibility of price competition among grain handling firms.
* No incentive for competitive efficiency in merchandising.
* Risk of underpricing with one desk selling.
* No direct producer control or participation in the price discovery process.
* Potential inflexibility.

PRODUCER MARKETING AGENCY

ADVANTAGES

* Producer control of marketing operation.
* Producer participation in pricing product at all levels through representation.
* Less dependence on government services.
* A high degree of flexibility in the marketing system and the functions to be performed or contracted by the agency.
* Possibility of greater control over rapeseed delivery points and achievement of resultant savings in transport and storage costs.
* Improved communications between rapeseed marketing and production functions.
* All CWB advantages apply in general.

DISADVANTAGES

* Market risk borne by producers on a collective basis.
* CWB disadvantages apply in general but perhaps to a lesser degree because of direct producer involvement and a greater flexibility in the system.

PART I THE MARKETING CHALLENGE

To effectively compare the various marketing systems, there must be a common ground concerning the environment in which Canadian rapeseed is likely to be marketed and the essential features and expectations of any system. This section highlights these factors.

MARKET PROSPECTS FOR CANADIAN RAPESEED

After some thirty years of relative insignificance, rapeseed, "The Cinderella Crop", has now emerged as a major Prairie grain crop. Agricultural economists predict continued growth for the foreseeable future. The modest past, the recent dramatic growth and the exciting future prospects are shown in Exhibit 2. Some key features of this past and projected performance are outlined below.

The World Oilseed Outlook

The steady growth in world demand for oilseed crops can be attributed to population growth, steadily increasing demand for protein products and strengthening economic conditions. In the 1970's, this upward trend in consumption is expected to continue.

In a major study of the outlook for agricultural commodities to 1975 and 1985, the Food and Agricultural Organization (FAO) of the United Nations documented this conclusion in some detail. (1) The FAO projections are somewhat complex in terms of various sets of assumptions. However, the most conservative forecasts indicate that the world edible oils and fats consumption will grow from 32.8 million tons in 1961/63 to 45.5 million tons in 1975 and 57.2 million tons in 1985. The growth to 1975, some 40% over 1961/63, is foreseen to be shared almost equally among the developed, centrally planned and developing countries.

Of the increase in supply needed to balance demand, the developed countries, particularly the North American group, are anticipated to make the greatest contribution. The share of the supply increase that Canadian rapeseed can secure will depend on its competitiveness with other products, chiefly soybeans.

Although less reliable than the forecasts for total oils, the FAO study projects rapeseed oil consumption to increase from 1.29 million tons in 1961/63 to 1.88 million tons by 1975 as compared with an increase from 3.83 to 6.5 million tons for soybean oil. The rapeseed oil increase is foreseen to be greatest for the developed countries (the category that includes Canada) with their production doubling from 0.27 million tons to 0.53 million tons.

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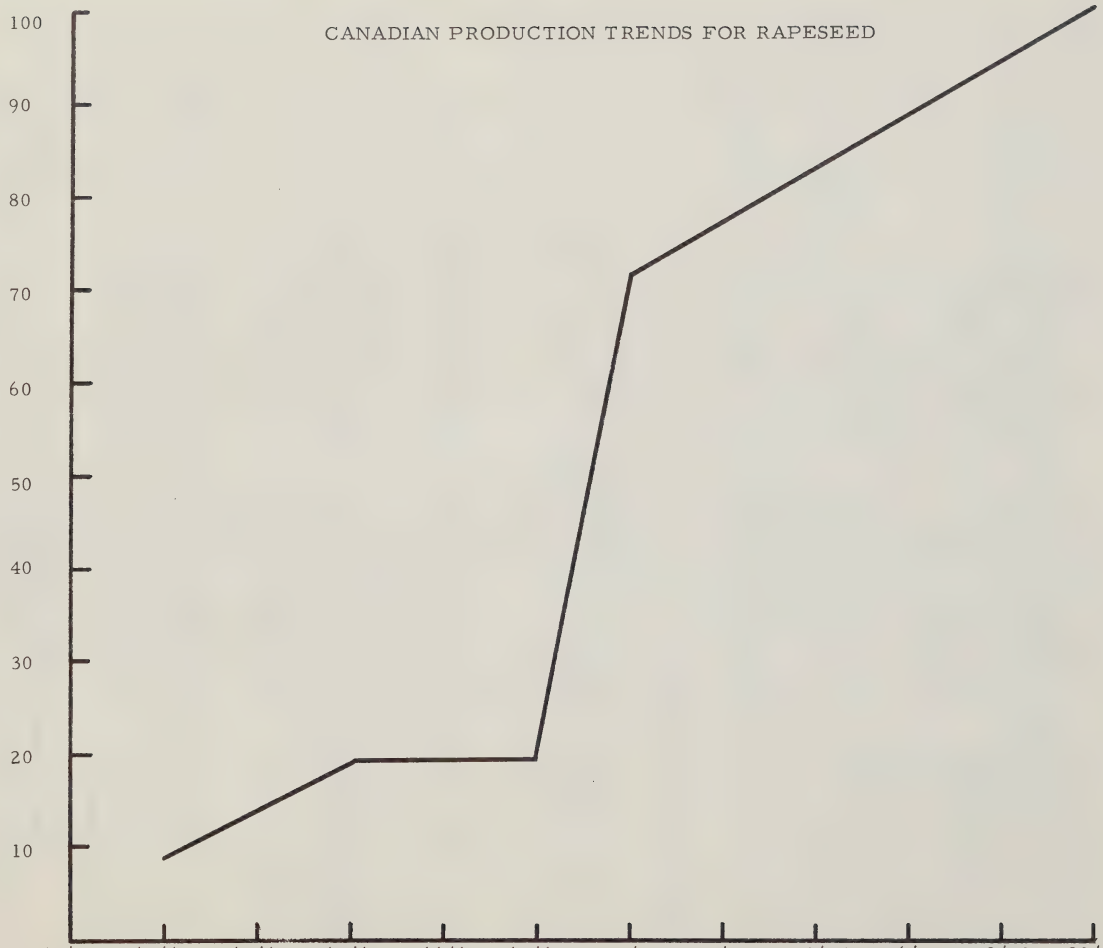
1. Agricultural Commodities - Projection for 1975 and 1985, Food & Agricultural Organization of the United Nations, Rome, 1967.



Source: DBS; Task Force on Agriculture and CDA Forecasts

Although the forecasts may not be realized exactly in terms of individual products, countries or regions, the overall growth prospects still appear sound. World consumption between 1967 when the forecasts were published and 1971 have confirmed the upward trend. The forecasts provide an encouraging market environment for Canadian rapeseed in the 1970's.

Export Markets For Oilseeds

The world oils market is complex by reason of the multiplicity of more or less interchangeable products, a large number of producing countries and shifting production/export/ import patterns. The number of major oil commodities, twenty-three, and their production patterns by product for recent years are shown in Exhibit 3. The steady growth of rapeseed tonnage is impressive but more significant is its increase in the share of the world oil production from 3.7% to 4.8% between 1960 and 1970, with a further increase to 5.7% forecast for 1971.

The FAO study lists thirty-seven regional groups of producers but the number of individual countries is probably double this figure; for example, North America is shown as one group and Eastern Europe as another.

Exhibit 4 from the FAO study shows the production, net import, and other consumption data by country for 1961/63. The world oils market is not made up of purely exporting countries and purely importing countries. Rather, there are numerous countries whose import/export position varies considerably from year to year, depending on their production/demand balance. This factor coupled with a high degree of product interchangeability creates a fluid international marketing situation.

Since Canadian rapeseed makes up less than 2% of the world oils market, recognition must be given to the institutional and political structure of the market in evaluating marketing system alternatives. While widespread international agreements and cartels are not a factor at present, there have been exploratory discussions concerning an international oils agreement. Also, some regional trading block agreements exist for trading within the European Economic Community (EEC) and between the EEC and certain African producing countries. Although Canadian representatives have attended the meetings concerning an international oils agreement, unofficial reports indicate that Canadian trade policy is unlikely to favour participation in the short term. Bilateral government sales and foreign aid agreements are sometimes made, but they are not as widespread as for wheat.

Table 1.--OILS AND FATS (oil or fat equivalent): Calculated world production, annual 1960-70 and forecast 1971 1/

Commodity	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970 2/	Forecast 1971
	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons
Edible vegetable oils 3/:												
Cottonseed	2,220	2,170	2,225	2,305	2,400	2,505	2,565	2,245	2,170	2,590	2,410	2,470
Peanut	2,510	2,795	2,910	2,920	3,005	3,295	3,190	3,230	3,330	3,000	3,115	3,350
Soybean	3,340	3,345	3,925	3,880	3,955	3,985	4,685	5,110	5,330	5,955	6,090	6,220
Sunflower	1,665	2,015	2,415	2,370	2,290	3,125	2,955	3,480	3,680	3,750	3,845	3,675
Rapeseed	1,100	1,190	1,215	1,065	1,120	1,485	1,455	1,680	1,890	1,575	1,895	2,340
Sesame	540	495	550	565	575	610	560	545	595	565	575	625
Safflower	110	130	135	205	210	185	200	255	265	175	220	235
Olive 4/	1,180	1,345	1,340	925	1,700	1,005	1,235	1,205	1,335	1,385	1,255	1,350
Corn	175	190	205	220	230	245	250	255	245	255	265	270
Total	12,840	13,675	14,920	14,455	15,485	16,440	17,095	18,005	18,840	19,250	19,670	20,535
Palm oils 5/:												
Coconut	1,960	2,195	2,035	2,130	2,270	2,135	2,260	2,145	2,100	1,955	2,005	2,040
Palm kernel	435	435	405	410	410	425	430	360	365	390	445	465
Palm	1,205	1,200	1,195	1,195	1,195	1,220	1,270	1,165	1,335	1,470	1,710	1,800
Babassu Kernel 6/	58	52	60	45	52	54	66	52	65	86	82	82
Total	3,658	3,882	3,695	3,780	3,927	3,834	4,026	3,722	3,865	3,901	4,242	4,387
Industrials oils:												
Linseed 7/	955	1,020	990	1,105	1,065	1,080	1,120	920	780	920	1,120	1,280
Castor 7/	275	250	270	285	355	335	325	360	355	385	315	380
Oiticica	20	16	25	5	17	12	18	2	29	1	13	6
Tung	121	115	114	115	137	148	121	150	126	131	117	137
Total	1,371	1,401	1,399	1,510	1,574	1,575	1,584	1,432	1,290	1,437	1,565	1,803
Animal fats:												
Butter(fat content)	3,855	3,895	3,970	3,970	4,040	4,300	4,220	4,385	4,700	4,645	4,580	4,535
Lard 8/	3,630	3,670	3,705	3,635	3,780	3,975	3,885	4,015	3,975	3,880	3,910	3,945
Tallow and greases	3,120	3,300	3,395	3,705	3,895	3,800	3,945	4,190	4,235	4,245	4,265	4,310
Total	10,605	10,865	11,070	11,310	11,715	12,075	12,050	12,590	12,910	12,770	12,755	12,790
Marine oils:												
Whale	380	388	354	267	226	198	115	103	92	79	80	80
Sperm whale	111	109	118	135	150	154	146	150	122	131	132	130
Fish(including liver)	462	602	669	616	759	786	895	1,082	1,168	922	1,041	1,100
Total	953	1,099	1,141	1,018	1,135	1,138	1,156	1,335	1,382	1,132	1,253	1,310
Grand total	29,427	30,922	32,225	32,073	33,836	35,062	35,911	37,084	38,287	38,490	39,485	40,825

1/ Years indicated are those in which the predominant share of the given oil was produced. 2/ Preliminary. 3/ Revised series for all commodities except olive and corn oils. 4/ Excludes sulphur oil. 5/ Estimated on the basis of exports and information available on consumption in the various producing areas. 6/ Mill production 1960-65 only. 7/ Revised series. 8/ Rendered lard only in most countries.

Foreign Agricultural Service. Prepared or estimated on the basis of official statistics of foreign government, other foreign source materials, reports of U.S. Agricultural Attaches and Foreign Service Officers, results of office research and related information.

SOURCE: United States Department of Agriculture - Foreign Agriculture Circular, February 1971

- Fats and Oils (including butter), Balance by Countries and Regions, 1961-1963 Average

Countries and Regions	Production	Net import	Available supply	Non food uses	Food uses	Per caput consumption for food
	(. . . . . Thousand tons of fat content . . . . . .)					
North America	8 458	-2 034	6 405	2 242	4 163	20.3
Western Europe	4 597	4 394	8 975	1 695	7 280	20.0
EEC	2 514	2 366	4 874	793	4 081	23.3
Other Europe	2 083	2 028	4 101	902	3 199	16.9
Other Developed Countries	1 340	-88	1 255	324	931	7.2
Japan	328	443	771	224	547	5.4
Oceania	786	-487	302	45	257	15.6
Australia and New Zealand	603	-316	290	44	246	18.6
Other Ocean Islands	183	-171	12	1	11	3.4
South Africa	226	-44	182	55	127	7.4
Republic of South Africa	226	-44	182	55	127	7.6
U.S.S.R. and Eastern Europe	5 436	328	5 764	1 521	4 243	13.2
U.S.S.R.	3 751	-63	3 688	1 106	2 582	11.7
Eastern Europe	1 685	391	2 076	415	1 661	16.7
Asian Centrally Planned Countries	2 652	-78	2 574	386	2 188	2.9
China (Mainland)	2 652	-78	2 574	386	2 188	3.1
Central and South America	2 552	-301	2 251	384	1 867	8.3
Argentina	698	-384	314	94	220	10.3
Brazil	703	-102	601	90	511	6.9
Mexico	538	9	547	82	465	12.5
Other Latin America	613	176	789	118	671	7.4
Africa	2 373	-1 289	1 084	111	973	4.2
North West Africa	140	107	247	25	222	7.5
West Africa	1 545	-1 056	489	49	440	4.8
Central Africa	457	-228	229	23	206	5.7
East Africa	231	-112	119	14	105	1.4
Near East	476	99	575	144	431	4.2
Far East	4 860	-940	3 920	582	3 338	4.0
India	2 494	12	2 506	376	2 130	4.7
Indonesia	497	-254	243	36	207	2.1
Philippines	877	-715	162	49	113	3.9
Other Asia	992	17	1 009	121	888	3.5
Antarctic	292	-292	-	-	-	-

SOURCE: FAO Agricultural Commodities Projections for 1975 and 1985

Another key factor in the world oils export market is the number of crushers and buyers actually involved. While oil production is increasing and new plants are being built, there is a trend to consolidation for greater efficiency. A great deal of buying volume is done through trading companies so that there are probably fewer buyers than crushers. While action by these buyers influences the price of oil, there is no evidence that the world oil market is currently under the control of any single firm or group of collaborating firms.

World trade policies and buying practices are changing rapidly and the Canadian rapeseed industry must respond quickly to any situation which would adversely affect its improving market situation. A marketing system which may be appropriate for 1971 may be inappropriate for 1975. Market conditions therefore must be monitored continuously to discern significant changes in trends.

Export Markets For Canadian Rapeseed

In 1969/70, export sales of rapeseed amounted to 22.2 million bushels as compared with sales to domestic crushers of 7.8 million bushels. (1) The major regular importers of Canadian rapeseed and their purchases between 1957/58 and 1969/70 are shown in Exhibit 5. Several sporadic customers such as Taiwan, which was Canada's second best customer in 1968/69, are not broken out. Also, while sales to the Netherlands are large, this may reflect the role of the Port of Rotterdam as a transit point. Of significance in considering the marketing situation are: the dominant role of Japan among the export customers; the position of the domestic crushing industry as the next largest single market; and, the fragmented and fluctuating nature of the non-Japanese export sales. The significance of the Japanese market warrants more specific comment.

Canadian rapeseed exports to Japan increased from 739,000 bushels in 1957/58 to some 14,390,000 bushels in 1969/70. The 1968 Canadian Rapeseed Trade Mission to Japan estimated that the Japanese market for Canadian rapeseed could be increased three-fold to 40,000,000 bushels a year.

A few years ago, Japan had some 1,000 crushing plants. However, there has been a steady reduction in number to about 400 as the industry has undergone a rationalization process. The trend is to larger plants located on the coast. These plants can achieve lower crushing costs through volume operation and lower raw material costs, the latter attributable to the plants' location on tide water and their volume buying capability.

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1. Dominion Bureau of Statistics 22-006

Exhibit 5

MAJOR IMPORTERS OF CANADIAN RAPESEED

1957 - 1958 TO 1969 - 1970

(Thousand Bushels)

Crop Year	Japan	United Kingdom	Belgium-Luxembourg	West Germany	Italy	Netherlands	All Others
1957-1958	739	62	20	1,110	2,238	2,092	88
1958-1959	976	22	11	459	2,221	1,926	55
1959-1960	2,289	31	7	--	138	10	472
1960-1961	877	169	311	607	2,949	845	2,317
1961-1962	1,231	146	108	226	3,320	988	898
1962-1963	3,080	73	158	215	1,358	372	414
1963-1964	4,331	92	--	6	189	167	636
1964-1965	2,567	357	68	638	1,462	1,036	2,107
1965-1966	6,986	162	335	1,075	2,804	1,470	794
1966-1967	8,404	158	--	68	3,163	960	1,056
1967-1968	10,197	--	--	--	324	307	1,457
1968-1969	10,909	--	--	64	184	143	2,917
1969-1970	14,390	698	304	967	842	2,796	2,210

SOURCE: Statistics Division... Board of Grain Commissioners of Canada

There are still a number of smaller plants located inland away from the main ports which buy in smaller lots. These inland plants are more economically vulnerable than the large mills and some industry analysts forecast even further consolidation, increasing buyer concentration.

Other significant features about the Japanese market relative to the marketing of Canadian rapeseed include the practice of purchasing through one or other of the major trading companies. Six of the firms are now actively engaged in rapeseed trading, and as rapeseed increases in trading volume, more firms may become involved. Also, it is expected that the Japanese Government import permit system for oilseeds will expire in May 1971. The grain trade anticipates that the removal of this deterrent will lead to increased sales of Canadian rapeseed.

It is reported by some producers and members of the trade that many Japanese buyers are unhappy with the situation in Vancouver (inadequacy of stocks and lack of fluid supplies) and that some buyers would like to enter into long term contracts to provide an assured supply. The Vancouver terminal situation is examined in detail later.

With respect to long term contracts, there is evidence that some Japanese companies have indicated a desire to discuss supply contracts with Canadian producers and grain firms. However, the main problem with such contracts appears to be the pricing method. Since some rapeseed producers are now delivering on a contract basis, it is probable that some acceptable formula may be found, such as the present practice of gearing the price to the futures market. Assuming that contract selling is to play a role in the future, any practical marketing system must be able to meet this requirement and, most importantly, to provide a vehicle for forward pricing.

Countries in the EEC have been important customers for Canadian rapeseed in the past. However, Canada's prospects for expanded exports of rapeseed to the EEC are somewhat uncertain. The protection of levies, the relatively high domestic price support programs and the use of export subsidies by EEC exporters to third countries was expected to encourage greater production within the EEC and to make it difficult for countries such as Canada to sell in these markets. However, in spite of this, the quality and realiability of Canadian rapeseed has led to an increase in sales in the last two years.

Canadian rapeseed should have an important role to play in the growing world oilseeds market. How important this role will be is dependent on Canada's price competitiveness, product quality, assurance of supply, market efficiency, domestic and foreign government agricultural and trade policies, and similar factors.

Domestic Market

The domestic crushing industry is the second best customer of Canadian rapeseed. Among the significant features of this market are the following:

* Rapeseed has shown a steady growth in Canadian oilseed crushings against a relatively steady crush of soybeans. (Exhibit 6)

* In 1969/70, some 7.8 million bushels of rapeseed were crushed in Canada, amounting to about 20% of the total supply of rapeseed for the year.

* The Canadian consumption of fats and oils has been forecast to increase by 55% between 1964/66 and 1980. Products of vegetable origin are expected to show gains over products of animal origin for reasons of price advantage, development of synthetic and substitute products, and health considerations. Experience to date supports this trend.

* The strong demand for oil relative to meal should favour rapeseed over soybeans.

* There are now five crushing plants in Canada, one in the East and four in the West, with a total capacity of 600 tons per day (as of early 1971). All four Western plants are in the process of expanding and a new plant is under construction in Eastern Canada. The total crushing capacity is expected to increase to 1,800 tons per day by the end of 1971. In addition to the foregoing projects, several new crushing plants have been proposed for Western Canada.

* The additional crushing capacity under construction will permit rapeseed crushing in Canada to triple to some 24,000,000 bushels per year.

CANADIAN CRUSHINGS OF VEGETABLE OILSEEDS AND PRODUCTION OF OIL AND MEAL

(crop year)

	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70
			(Millions of Pounds)			
Crushings						
Flaxseed	162	147	142	127	117	139
Soybeans	1,172	1,239	1,193	1,190	1,203	1,421
Rapeseed	108	187	248	258	347	388
Sunflowerseed	23	14	14	24	24	21
Total	1,465	1,587	1,597	1,599	1,691	1,969
Oil Production						
Flaxseed	56	51	50	45	41	48
Soybeans	201	205	202	190	204	241
Rapeseed	42	73	99	104	141	153
Sunflowerseed	7.9	4.8	5.6	9.9	9.4	9.5
Total	307	334	357	349	385	451
Meal Production						
Flaxseed	102	90	87	78	72	87
Soybeans	930	983	949	945	953	1,117
Rapeseed	63	108	142	148	196	228
Sunflowerseed	8.6	5.2	5.4	8.5	9.2	8.6
Total	1,104	1,186	1,183	1,180	1,230	1,441

SOURCE: DBS No. 32-006 and 22-006

Note: for conversion to bushels: -

Rapeseed -	crushings	50 pounds/bushel
-	meal	28 pounds/bushel
-	oil	20 pounds/bushel

The multitude of determining factors makes it impossible to predict what level the crushing industry might reach by 1975 or 1980, but, barring any adverse circumstances, continued expansion should be realized.

Production Potential

The supply and disposition of the 1969/70 crop is shown in Exhibit 7. Prospects are favourable for substantial production increases to meet rising demand for rapeseed. Among the significant factors are:

* End of year stocks of rapeseed have averaged 4.5 million bushels over the past six crop years. With the exception of 1967/68 when end of year stocks were 9.9 million bushels, carry-overs have not been large enough to meet the demand prior to the new crop getting into position. The reasons for the large 1967/68 carry-over have not been investigated but many members of the trade believe it to be attributable to producer and trade preference for the marketing and handling of other crops over rapeseed.

* While some 15,000,000 acres are believed to be suitable for growing rapeseed, the necessity to rotate crops to control disease would limit the potential to half this acreage. However, 7.5 million acres is still nearly double the 1970 acreage. (1)

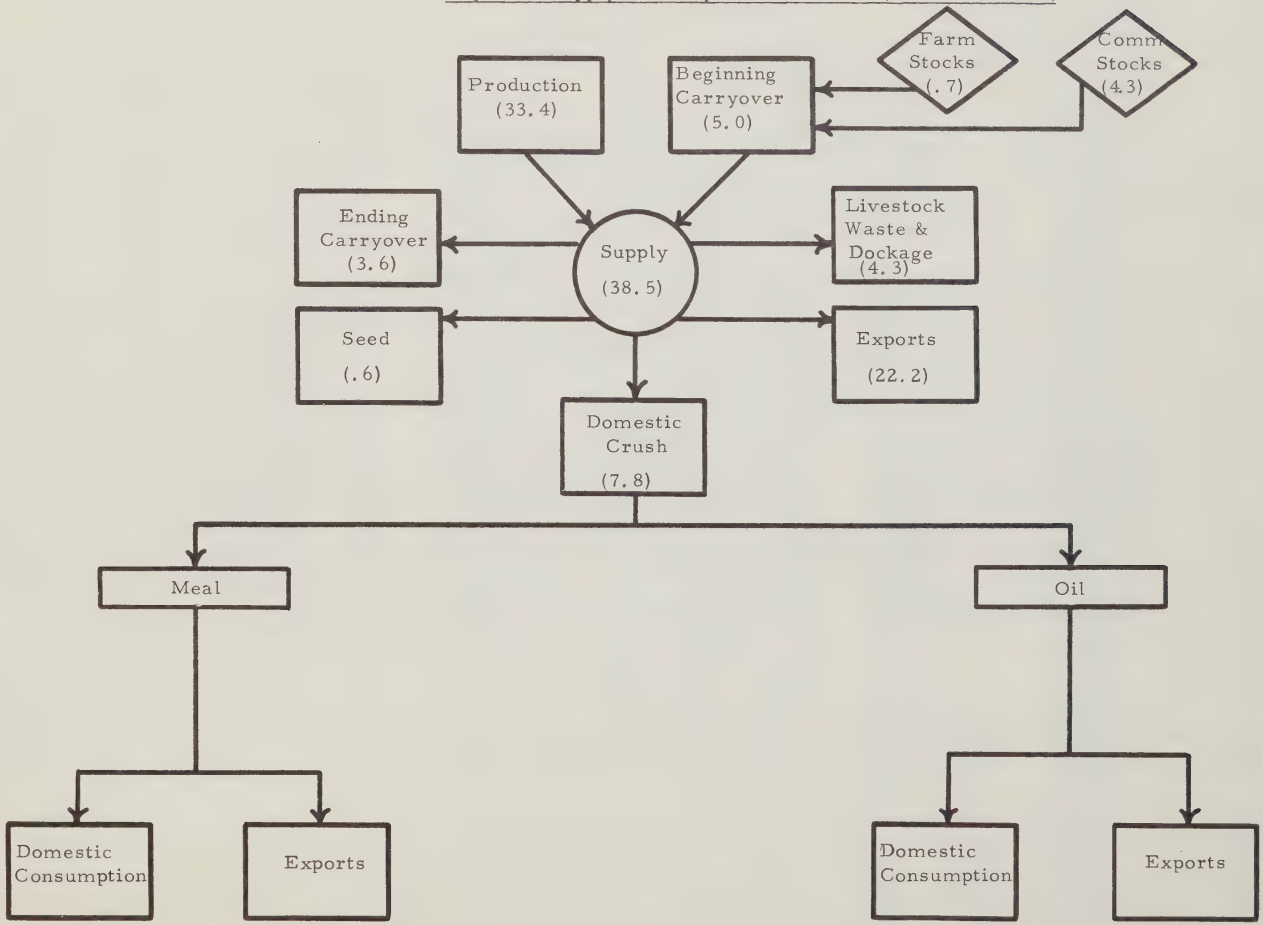
* Based on the ten-year average yields (16.5 bushels/acre), 7.5 million acres would produce approximately 124 million bushels. Increases of 15-20% in average yields are believed attainable through the use of more fertilizer and through better farm management as more experience is gained with rapeseed. On this basis, production of 150 million bushels of rapeseed per year is considered feasible. (1)

* If rapeseed attains the acreage level estimated above, it would become the third most important crop following wheat and barley.

* Government policy, as reflected in the "Proposals for a Production and Grain Receipts Policy for the Western Grains Industry", appears favourable for a substantially expanded rapeseed industry.

(1) Estimates by Dr. W.J. Craddock, University of Manitoba

Rapeseed Supply and Disposition 1969/70 (million bushels)



SOURCE: Dominion Bureau of Statistics 22-006, March 1971

Exhibit 7

The Outlook For Canadian Rapeseed

No attempt has been made in this study to carry out an extensive analysis of prospects for Canadian rapeseed in the 1970's. It is clear, however, that the strong world outlook for edible oils, encouraging potential for rapeseed in the export oil and oilseeds markets, and excellent growth prospects for the domestic crushing industry make for an excellent "demand pull" situation for expanding the production of Canadian rapeseed at competitive world oil prices.

World oil prices and supplies have traditionally been determined by international supply and demand. Some economists believe that assurance of delivery and other factors will become increasingly important in the 1970's. These factors as well as price may determine the competitive ability of an oil supplier. Selling on long term contract may become more widespread as a result. Canada's reputation for agricultural performance, political stability and responsible international business dealings should stand her in good stead if these predictions materialize.

Forecasts prepared in 1968/69 by the Task Force on Agriculture (1) and a team of economists from the Canada Department of Agriculture (2) indicated that Canadian rapeseed production could reach 100 million bushels per year by 1980. In the light of the 1970/71 crop of 70 million bushels and world oil prospects, many officials in the grain trade believe these forecasts to be conservative. Regardless of the exact level, the concensus is that rapeseed is likely to grow in importance as a Prairie grain crop. Canadian rapeseed producers require a marketing system that is able to effectively merchandise annual crops of 100 million bushels or more, on the basis of the available forecasts.

Marketing Requisites

The Task Force and the Department of Agriculture forecasts are based on a number of qualifications or conditions. They provide a strategy framework if the crop is to attain its full potential. These conditions are summarized as follows:

* Continuing improvement in product quality through extensive research on plant breeding and crushing.

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1. Canadian Agriculture in the 1970's, Queen's Printer for Canada, 1969.
2. J.S. Carmichael and S.W. Garland "Rapeseed Production", Canadian Farm Economics, Volume 4 Number 6, February 1970.

* Production increases in line with market growth.

* Efficient production.

* Prices competitive with the many inter-changeable oilseeds on the world market

* An efficient storage and transportation system.

* Market promotion in export markets.

* Expanded use of rapeseed by domestic crushers.

The ability of a marketing system to meet adverse as well as buoyant world market conditions must be considered. Although rising world oil prices with resultant increases in rapeseed prices, and strong demand for rapeseed with little carryover have prevailed for the last several years, recognition must be given to the possibility of concurrent bumper crops in many major oil producing countries, substantial price declines and large carryover stocks. In the 1970's, increased buying concentration through mergers and cartels may develop and oil agreements, both regional and international, may emerge. While such factors are difficult to anticipate in the short term, they are distinct considerations for the immediate and long term. At such time as these or other critical factors emerge or are anticipated, the marketing system for Canadian rapeseed must be adapted to cope successfully with these conditions, recognizing the important influence of Canadian agricultural and trade policy on the marketing system.

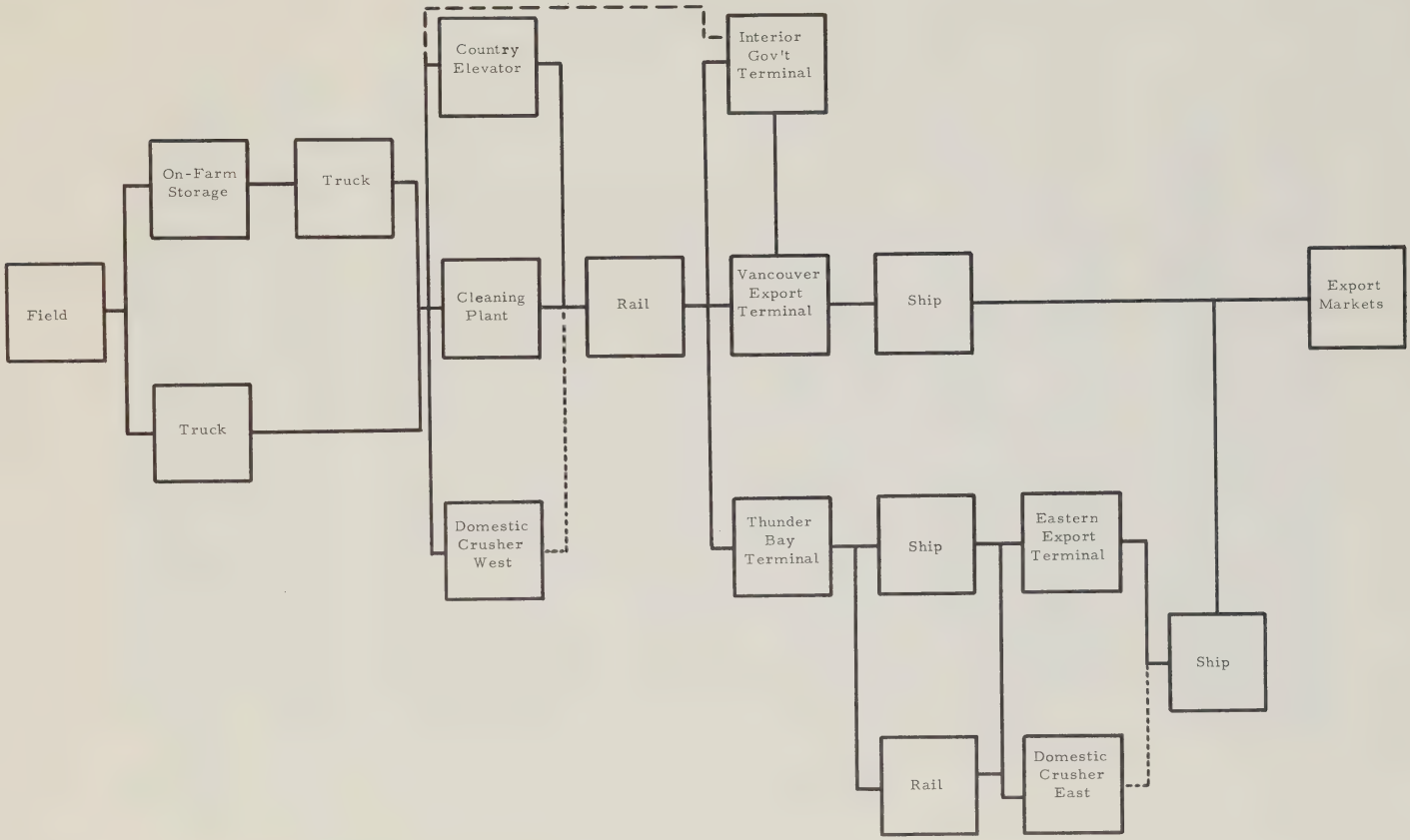
ESSENTIAL MARKETING OPERATIONS

The marketing of any commodity involves certain essential functions. In the case of rapeseed, these may be conveniently classified as physical, functional and pricing.

Physical

The physical flow of rapeseed from the farm to market is shown graphically in Exhibit 8. Regardless of the marketing system, these physical functions must be performed. How they are organized and who pays for them may vary but the functions remain the same.

PHYSICAL MOVEMENT OF RAPESEED FROM FARM TO MARKET



SOURCE: P.S. ROSS & PARTNERS

Regarding the physical movement of rapeseed, the following is noted:

* The harvesting, on-farm storage and transportation to interior delivery point functions are, with few exceptions, under the control of the producer.

* The next stage of the physical movement of rapeseed has three main routes: the elevator system (commercial or government interior terminal), a cleaning plant (independent or Eastern crusher affiliate) or a Western crusher. Sales to the country elevator system accounted for 77% of rapeseed marketings in 1969/70. The amount of rapeseed held in country elevators is regulated through delivery quotas, terminal scheduling of export movement and block shipping.

* In recent months, a number of questions have been raised concerning the economics of rapeseed cleaning operations. To clean rapeseed to export standards, a special type of cleaning equipment (machine screening) is required and there are few country elevators which are so equipped. Only export terminals and the government interior elevators are geared to clean rapeseed to export standards in any volume. The export terminals in Vancouver have a rated cleaning capacity of 4,000,000 bushels per month but, for various reasions, it is reported that this capacity has rarely been fully utilized. Since rapeseed has had an average dockage of 12% in recent years and a level of 15% is estimated for the current year, it has been suggested that the shipment of fully cleaned or at least partially cleaned rapeseed from the Prairies be considered to expedite shipment through the port of Vancouver. There are various counter-arguments to this idea and, since the whole subject of transportation and storage of grains is under study by the Grains Group, it would be inappropriate to comment further on this matter.

  However, from the producer point of view, several questions concerning the present arrangement for the cleaning of rapeseed have been raised. One agrument is that under the present street price arrangement, the producer is paying for freight on screenings for which he gets no return. Second, the producer pays for cleaning but he does not receive the screenings as a by-product. Finally, instead of the cleaning being

carried out on the Prairies it is done in an area of high labour costs which reduces his net return. These matters relate primarily to the physical transport and storage operations and, as a result, they are beyond the scope of this study. However, to the degree that they involve the marketing system, they are a consideration in the evaluation of the alternative systems.

* The Government interior terminals in Edmonton, Calgary, and Saskatoon are an important part of the physical storage and handling system but they have been used to a limited degree in the past. The elevators in Edmonton and Saskatoon were licensed last year to operate in part as country elevators to handle rapeseed. These elevators can perform the same functions as commercial country elevators and can clean for export, providing a grain merchandiser enters into an agreement with the Board of Grain Commissioners. All three elevators are designated as delivery points for rapeseed futures and, in this capacity, they play an important part in the futures market operation.

  The interior terminals represent a potential source of substantial storage and handling capacity but their utilization is discouraged by the extra costs of handling (11-12 cents per bushel for elevation and railway stop-off charges).

  The Government elevators do not purchase rapeseed as do the country elevator companies but merely provide a physical facility for producers, grain companies and exporters. There appears to be a lack of precise information among producers and the trade as to how these facilities can be used effectively. The extra costs have discouraged the country elevator companies from using the system and the integration of the country elevator operations with export terminals has also proved a further deterrent to more extensive use.

* All rail car shipments are made within the 'block system' operated by the Wheat Board and Crow's Nest Pass rates apply to all export shipments and to domestic shipments to Thunder Bay.

* More than 90% of Canadian rapeseed exported in recent years has moved through Vancouver. However, Thunder Bay showed a substantial increase in 1969/70 and, it is anticipated in the trade that it will play an increasing role in the future. The

terminals at Thunder Bay have a capacity of more than 100 million bushels, nearly four times that of Vancouver, but rapeseed accounted for only 1% of throughput during the 1969/70 crop year. Increasing sales potential for export markets in Europe and the growing crush of rapeseed in Eastern Canada is expected to increase the movement of rapeseed through Thunder Bay. The establishment of a Thunder Bay futures market was designed to facilitate the growing importance of Thunder Bay as a rapeseed handling centre.

* Three producer owned grain companies and one private grain company operate the Vancouver export terminals. A "sellers' market" for terminal facilities at Vancouver is one of the major contributors to rapeseed marketing problems in recent years. The integration of the terminals with country elevator systems, limitations on terminal space assigned for "free stocks" of rapeseed, the issuance of warehouse receipts and other situations relating to the operation of the terminals have been identified by the industry as problem areas and action has been or is being taken on all of these matters.

* Of the Eastern export terminals, the facilities at Quebec City and Baie Comeau handle a significant amount of rapeseed.

* Ocean shipping is a major factor in the handling of rapeseed. While ocean transport involves a low unit cost, the operating cost of a vessel is extremely high, $2-3,000 per day or more. Logistics at the export terminals are therefore important and both grain and vessels must be in place when required if the shipping cost is to be minimized. In Vancouver, where there is a high volume of export grain and limited terminal capacity, scheduling is critical, and the failure of Vancouver to meet the challenge has troubled producers and members of the grain trade in recent years.

The physical movement of rapeseed is common to all marketing systems. However, one marketing system may have a greater degree of influence or control over the physical system than another. Conversely, problems with the physical movement can have a severe impact on the marketing system. For example, the problems experienced in shipping rapeseed and other grains through Vancouver have adversely affected the

prices, costs and other aspects of the marketing operation. Problems of this nature are referred to in the grain trade as "technical problems", that is they stem from physical operations, not the marketing system itself. Comments are made throughout the report on the influences that various technical problems have had on the marketing of rapeseed.

Functional

Paralleling the physical movement of the product, there are numerous marketing and commercial functions which involve several government and private institutions. The various organizations involved in the process of marketing rapeseed under the present system is demonstrated in Exhibit 9. The marketing functions have been broken into two categories: direct marketing functions; and, control or facilitating functions.

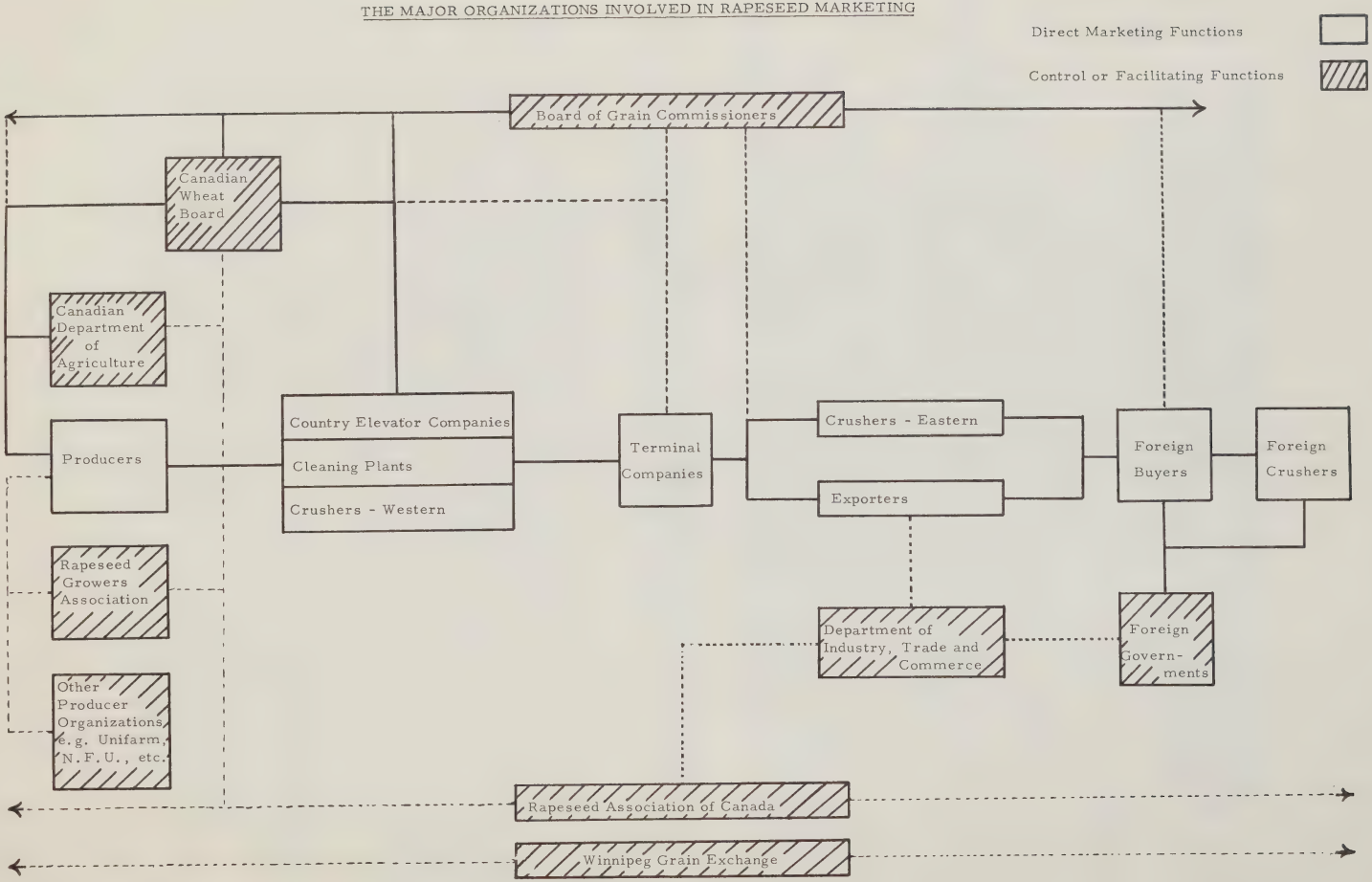
Under a Wheat Board system, most of the same participants would be involved to some degree, except for the Winnipeg Grain Exchange in the case of the wheat system. Under a Producer Board system, the situation would be similar except that the agency would be more involved in the various direct, control and/or facilitating functions, the degree depending on the role the agency was assigned to perform.

This chart clearly demonstrates the complexity of the grain marketing process in Canada, regardless of the marketing system used.

Pricing

At the present time, rapeseed is priced on the basis of the demand/supply price discovery mechanism of the world oils market. Since rapeseed holds a relatively limited share of the world market and there is such a high degree of interchangeability of products, the world market will continue to be the basis for determining the price for Canadian rapeseed for the foreseeable future. If rapeseed can become a major factor, demonstrate distinct advantages over competitive products, establish captive customers, or create some other advantage then a new pricing mechanism based on negotiation, production costs and other factors may be needed. The same would apply should an international oil agreement or other market arrangements alter the present market structure.

THE MAJOR ORGANIZATIONS INVOLVED IN RAPESEED MARKETING



SOURCE: P.S. Ross & Partners

For the purpose of this study, the price determination process is an important area of distinction between the Open Market (including voluntary pooling) and the Board (Wheat Board or Producer) system. The Open Market system involves a close and relatively open play between Canadian rapeseed and the world oil market. The Board System uses an analytical process to determine the relationship between rapeseed and competitive products.

The operation of both of these price discovery methods is described in detail under each system.

EXPECTATIONS OF ANY SYSTEM

The various participants in the marketing process - producer, exporter, foreign buyer, domestic crusher and so forth - expect certain features in any rapeseed marketing system. The prime parties to be satisfied are the producer and the buyer (domestic or foreign). All other parties must be satisfied insofar as they perform a necessary and competitively priced service in the marketing process.

Among the major expectation of each of the participants are the following.

Producer

* An indication as to future price prospects
* A continuing market at prices competitive with other edible oil crops
* Assurance that increased production can, in fact, be sold over the long term
* Confidence in the marketing system
* Assurance that middle men are not taking excessive margins
* Assurance of a fair deal regarding grades, dockage and weights
* A price comparable to other producers

Domestic Crusher

* Assurance of a steady supply at a price competitive with other oilseeds

* Assurance of the market acceptability of rapeseed oil and meal relative to soybean oil and meal and other competitive products

* Existence of some type of price protection mechanism to allow processors to reduce risk on inventory requirements and maintain satisfactory crush margins between the value of the primary and finished products.

Foreign Buyer

* Assurance of a steady supply of rapeseed at prices competitive with other oilseeds

* Possibility of buying for forward delivery

* Assurance that commitments will be respected i.e. contract dates, grades, quantities, etc.

* Confidence as to the quality of the product

Country Elevator Operator

* Generation of adequate revenue to provide a fair return on investment

* A price protection mechanism to enable the operator to avoid the effects of price declines on the inventory which he owns

* Possibility of deriving revenue from cleaning and mixing of grains

Terminal Operator

* Generation of adequate revenue to provide a fair rate of return on investment

* Opportunity to maximize handling and storage revenue by effective logistics

* Provision of a price protection mechanism which enables the operator to avoid the effect of price change

Exporter

* Assurance of a marketing mechanism which provides for price protection

* Ability to build up parcel sales, alone or with other exporters, over a period of months to complete full cargoes for various positions and destinations

* Existence of sufficient quantities of contract grades in position to meet sales

* A transportation and port loading system which favours quick turnabout of vessels so as to avoid costly demurrage on ocean freight

Canadian Wheat Board

* Compatability with programs to maximize sales of Canadian wheat and other Board grains

* Compatability with the delivery quota system to permit easy administration and smooth operation of the delivery system

* Compatability with the movement of other grains to export points under the block system

Railways

* Maximum movement of commodities to meet market demand

* Compatability with other commodity movement

Winnipeg Grain Exchange

* Opportunity to give members a marketplace in which to trade and, by this process, to discover prices

Board of Grain Commissioners

* Maintenance of the reputation of Canadian products

* Assurance of fair treatment for producers

* Provision of merchandising and handling functions on an equitable and economic basis

* Provision of statistics which will assist in production and marketing

Canadian Government

* Assurance that the maximum volume of Canadian rapeseed will be sold at the greatest return to the producer

* Generation of maximum possible income from exports

PART II THE OPEN MARKET SYSTEM

The open market system is a concept which stems from the philosophy of a free enterprise, open market economy. With the increased role of government in the past several decades, free enterprise theory has given way to the reality of a mixed enterprise economy. By the same token, the open market system is now, in fact, a "modified open market system". The free play of supply and demand is constrained by government regulation and other direct and indirect public involvement. Also, within this newly defined marketplace, the number and power of the various buyers and sellers makes what economists term "an imperfect" rather than a "perfect" market.

The present system is not a "designed system" in that all the elements and influences have not been examined and proper roles assigned to the various organizations. Rather, the system represents the surviving features of the open market system as the various participants have responded to the environmental changes of more government control and an imperfect world marketplace. This background is important to an understanding of the present "open market system". In addition, even the present system like all systems and organizations operates at two levels: the way it is supposed to operate and the way it actually operates. The difference derived from the realities of human and organizational behaviour. In describing and evaluating the open market system, it is the present modified open market system, not the traditional or classical system, that is under review.

THE SYSTEM IN THEORY

The open market system is based on the concept of price determination ("price discovery") derived from the free play of supply and demand. The price that the farmer receives for his produce is directly related to the price at which the produce is sold to the ultimate user. In the case of commodities that are traded on an international basis, however, the time required to move the produce in an expedient fashion from the farm to the foreign market has necessitated the development of a sophisticated trading mechanism which permits the forces of supply and demand to operate while reducing the risk of owning the commodity or of making sales while short (not owning) the commodity.

The trading mechanism is known as the futures market. It must be emphasized that the futures market is only a trading mechanism and that the futures transaction under the open market system constitutes but one step in the process of merchandising rapeseed.

The futures market permits buyers and sellers to reduce the risk of price fluctuations by providing a hedging mechanism against their inventory purchases or short sales. The futures market is essentially a price setting or price discovery mechanism and can perform this function equally well for buyers as for sellers. It also permits forward planning for crushers and for producers by providng an indicator or signal as to future prices.

At the present time, the major users of the futures market are domestic elevator operators and exporters. Elevator operators hedge their purchases from producers by selling futures as a protection against inventory loss through price declines. Exporters hedge when they make a sale to protect against price increases. Domestic crushers, foreign buyers and producers participate from time to time in similar ways. Speculators, of course, play a regular and important role.

There are several key features to the operation of the futures market which warrant description to provide an understanding of its day to day functioning. Among these are the futures contract, the short hedge, the long hedge, the speculator and the cash basis. Each of these is described below.

The Futures Contract

A key component in the mechanics of commodity futures trading is the futures contract. The futures contract provides for the delivery of a given quantity of a commodity of a specified grade in a stated month in the future. In the case of rapeseed, the standard contract is 5,000 bushels (job lots of 1,000 bushels are also provided for) and deliverable grades are one and two Canada rapeseed. Delivery is permitted of superior or inferior grades at fixed premiums or discounts. The futures trader is rarely interested in taking or making delivery. Almost invariably, he closes out his position in futures delivery contracts before they mature by re-purchase or exchange transactions.

On the Winnipeg Grain Exchange, trading in rapeseed futures in 1971/72 is confined to the months of September, November, January, March and June for Vancouver delivery and October, December, May and July for Thunder Bay delivery.

The Short Hedge

One of the merits of the futures market is that it permits the owner of rapeseed to protect himself against a loss in inventory value through a price decline. Domestic crushers and elevator companies who are buying rapeseed from producers at a cash price sell futures contracts equal in quantity to their purchases. This procedures is known as short hedging.

A simple example will illustrate the effectiveness of short hedging. On January 4, a country elevator company buys 5,000 bushels of rapeseed from farmers at $2.50/bushel or 40 cents under the Winnipeg March futures of $2.90 (for Vancouver delivery). The 40 cents between Winnipeg March and the "street price" (the price paid to the producer for his rapeseed) represents the fixed and variable cost of moving the rapeseed from the country elevator to delivery position in Vancouver, including rail freight, carrying charges (storage and interest from January 4 to March 31) and cleaning costs. Thus, the "street price" should bear a direct relationship to the price of the future in which it has been hedged. Having bought rapeseed at a cash price, the elevator company concurrently sells equivalent futures at the market ($2.90/bushel).

One month later, the elevator company sells 5,000 bushels of rapeseed to a Vancouver exporter for shipment during late March at March price. During this time, the March futures moved up to $3.00/bushel in response to world market conditions. The elevator operator can buy back his March future as he makes his cash sale thus establishing his operating margin, or he may simply exchange futures with the exporter thus avoiding a market transaction. The transaction is summarized as follows:

	Price/Bushel	
January 4:		
Buys 5,000 bushels of rapeseed in country at	$2.50	
Add Operating Margin	0.40	2.90
Sells 1 Contract Winnipeg (Vancouver Delivery) at		2.90
Net		$----
February 4:		
Sells 5,000 bushels of March rapeseed (instore Van.)	$3.00	
Buys 1 Contract Winnipeg March at	3.00	
Net	$----	

Net Effect

Gain on Cash Transaction $3.00 - $2.90	=	$0.10
Loss on Futures Transaction $3.00 - $2.90	=	(0.10)
Net: Gain on Cash Less Loss on Futures	=	$----

In the example, the operator would have realized a $.10 profit over and above his operating margin had he not hedged. On the other hand, if the market had declined to $2.60 for example, the operator would have lost $.30 per bushel on the transaction, thereby reducing his operating margin from $0.40 to $0.10. This would be a damaging loss.

In theory, producers could make effective use of the short hedge to protect against loss in inventory value. A few producers do use the futures market but, delivery quotas, a lack of knowledge of futures market operation and difficulties in communicating market information preclude more widespread involvement.

The Long Hedge

Whereas the short hedge benefits the seller of a commodity providing protection against price decline, the long hedge provides price increase protection to the buyer. It enables the exporter to protect himself against price increases on forward sales without having to carry extensive inventory in his own or public storage facilities.

Exporters build up sales to various destinations over a period of months, often selling small parcels at a time, but eventually building up to a large scale shipment, alone or in combination with other exporters, for specific shipment periods and destinations. As sales are made, futures contracts are bought or exchanged for corresponding quantities. This transaction is known as long hedging.

The following example demonstrates the effectiveness of long hedging. On January 4, an exporter makes a sale of 5,000 bushels of rapeseed to Japan for last half March shipment. The sale price amounts to $3.40 a bushel CIF (cost, insurance and freight) Yokohama or $.50 over the Winnipeg March future (for Vancouver delivery). As yet, the exporter does not own this amount of rapeseed.

The $.50 between the Winnipeg March futures and the selling price represents the cost of moving the rapeseed from Vancouver to Yokohama i.e. loading the vessel, ocean freight and insurance, interest on the loaded commodity, etc. It constitutes the exporter's operating margin.

Having made a sale of rapeseed for which he is not covered in the cash market (i.e., he does not actually own the rapeseed) the exporter buys a Winnipeg March Futures contract at the market which is trading at $2.90 per bushel.

One month after making his sale, the exporter decides to cover his cash short (i. e., he wishes to take physical possession of rapeseed as he has assembled sufficient orders for a shipment). He buys 5,000 bushels of rapeseed through a terminal at March price of $3.00 per bushel. He sells his Winnipeg futures at the market which is trading at $3.00 or exchanges futures contracts with the terminal, and thus assures his operating margin of $.50 per bushel.

The transaction is summarized as follows:

	Price/Bushel
January 4:	
Sells 5,000 bushels of rapeseed Japan last half March at	$3.40
Cost of Shipping to Destination	0.50
Difference	$2.90
Buys 1 Contract Winnipeg March at	2.90
Net	$----
February 4:	
Buys 5,000 bushels of rapeseed Vancouver last half March at	$3.00
Sells 1 Contract Winnipeg March at	3.00
Net	$----
Net Effect	
Loss on Cash Transaction $2.90 - $3.00 =	($0.10)
Gain on Futures Transaction of $3.00 - $2.90 =	0.10
Net: Gain on Futures Less Loss on Cash	$----

In the example, the exporter would have had only $.40 per bushel to move rapeseed from Vancouver to Japan if he had hedged and would have incurred an operating loss of $.10 per bushel on the transaction. Had the market decreased following an overseas sale for which the exporter was not covered in the cash market, he would have made an extra profit. As a rule, exporters prefer to avoid risk taking (speculation) and hedge even if they expect the market to decline.

In some cases, domestic crushers can use the market in a similar way to exporters to assure a steady inventory throughout the crop year at a favourable price. One example would be a crusher who can store one month's supply of rapeseed but wishes to crush 12 months a year. If he considers price levels registered for future months to be attractive, in that satisfactory crushing margins between the cost of rapeseed and his forward selling prices for oil and meal can be assured, he can buy futures contracts corresponding to future needs. As he buys the cash commodity throughout the year, he reverses his futures position (i.e., sells equivalent futures contracts that he is holding). In so doing, he fixes the price at which he buys the cash commodity.

The Speculator

The speculator is the risk taker in the futures market. Speculation differs from hedging in that the speculator takes an outright position in the market. As has been described, the hedger takes a position in the futures market which is opposite to his cash position in an effort to reduce risk. The speculator, on the other hand, goes outright long (buys) or short (sells) futures contracts anticipating potential profits from price declines or increases, depending on his position. He typically is involved for a brief period of time and is more often on the long than the short side. It is generally agreed that his role in the market is positive rather than negative, that his participation as a rule tends to reduce rather than accentuate price fluctuations, and that he adds open interest to a market which might otherwise be unduly thin if only hedgers were involved.

An example of the speculator's role might be a case in which the exporters are making sales to overseas buyers. In order to cover their sales, exporters come into the market to buy futures. It may happen that farmers are holding back stocks expecting higher prices. Since elevator operators are not buying rapeseed, they are not putting short hedges (sell orders) into the market. In such a situation, the futures market will have a tendency to rise sharply and speculators will tend to take the short side of the market, considering the futures price increases out of line with market realities.

The term "speculator" has a negative connotation in the minds of some people. However, as has been pointed out, speculators can play an important role in the open market system. While speculators are seeking

a return for their risk taking, only some make gains and many others experience losses. The determining factor is the speculator's ability to accurately identify and forecast key market determinants. While speculators are most often though of as "professionals", in fact, a wide variety of people play the speculator's role, including many farmers and ordinary investors.

Cash Basis

The cash basis is the difference between the futures prices and the price at which the cash commodity trades at an export port. For example, the cash basis in Vancouver during March for a Winnipeg March future deliverable in Vancouver should be zero. In fact, the cash market price often exceeds the futures market price, the difference being the cash premium over a normal basis, reflecting perhaps a supply/demand situation at that particular moment. It is a premium for available stocks.

The normal marketing sequence of events for an export sale of rapeseed is as follows:

* The country elevator companies establish and announce the daily street price that they are willing to pay for rapeseed delivered to their elevators.

* The producer decides to deliver his rapeseed to a country elevator and receives a cash price.

* The country elevator company hedges the rapeseed purchases daily (short term delays sometimes occur) allowing thirty to ninety days for delivery, depending on the destination and transportation/clearing/handling circumstances at the time.

* The country elevator company then arranges for shipment of the grain to an export terminal, securing rail cars under the block system. In doing so, the company is preparing to make delivery of the grain sold under the futures contract.

* The export terminal company, cleans, stores and loads the grain. Since it is affiliated with the country elevator company, it is in a position to negotiate hedging transactions taken by the country elevator when it purchased the grain. The terminal company, when making sales to exporters, usually exchanges futures with the buyer (exporter) to hedge its position. In other words, the country elevator company's short hedge is transferred to the terminal company which normally does not lift its hedge but exchanges the long hedges held by the exporter to cancel its short position. Since

ships and rail cars frequently do not arrive exactly on schedule, the terminals must be able to act quickly to assign and re-assign stocks and to handle the associated paperwork.

* The exporters arrange sales with foreign buyers well in advance of delivery (the foreign buyer is usually a trading company acting on behalf of several crushers). The exporter buys futures contracts corresponding to his sales agreements with the foreign buyers.

* When the cargoes have been assembled, the exporter buys cash grain and sells or trades futures contracts with the terminal company.

The futures contract provides for the sale of a specified amount of rapeseed for delivery at any specific point during a specified time. This delivery feature is an important key to the operation of the open market system. While Winnipeg futures contracts are basically for delivery to Vancouver or Thunder Bay, the realities of Canadian geography as reflected in the transport and storage system have led to the designation of Edmonton, Calgary and Saskatoon as alternate delivery points. While the futures contract provides for delivery up to the last business day in the contract month at the designated port, the provision of alternate delivery points and the anticipated transport delays require a ten-day advance deadline at these alternate delivery points. Use of these alternate delivery points and the delivery deadlines provides for considerable scope in the system, although little use has been made of them to date.

The roles of the various participants in the present rapeseed marketing system are described below.

Producer

The present market system provides the producer with considerable flexibility in the sale of his crop. He can sell directly to a country elevator company, a domestic crusher, a cleaning plant or an exporter. In addition, he can sell futures contracts and deliver directly to one of the three alternative delivery points in the Prairies. Although more than three-quarters of the rapeseed crop has been delivered to country elevators in the past, a number of producers have used the flexibility of the system to advantage. When quotas permitted, such producers have been able to take premium prices and they have stabilized their average returns through contract selling to crushers and cleaning plants, and so forth.

There are several aspects to the relationship between the producer and the present market system. Among them are:

* The futures prices provide producers with a valuable forward price indicator for their crop planning decisions.

* Street prices are derived from futures market prices less operating margins. (This subject is examined in detail in a later section).

* The futures market is available for producer hedging, although its use has been limited because of delivery quotas and a lack of information about the marketing mechanism and up to date prices.

* The system provides the individual producer with freedom of choice among several marketing possibilities, allowing him to manage his own production and marketing affairs with minimum interference.

The Country Elevator

The major role of the country elevator system in the marketing process is to buy rapeseed from the producer, assemble it for shipment and load it into rail cars. Rail shipments are a routine, though complex, operation, with the Canadian Wheat Board block system providing overall co-ordination. Little cleaning of rapeseed is carried out by country elevators for reasons described earlier.

Country elevators are required to accept all rapeseed on delivery by producers, subject to space and producer quota limitations. Under the present regulations, producers are free to deliver rapeseed to any licensed country elevator. The price paid by the country elevator is known as the street price.

The street price setting mechanism is a matter of practice within the framework of the present marketing system, it is not an essential part of the system itself. At present, street prices are established by two committees, one in Calgary and one in Winnipeg. The Calgary Street Price Committee sets a price on rapeseed for Alberta and the Winnipeg Committee sets the price for Manitoba and Saskatchewan. The existence of two street price bases

reflects the fact that rapeseed may be shipped through either Thunder Bay or Vancouver.

The existence, organization and method of operation of the street price committees are well known in the grain trade and there is no secrecy about the bases for establishing prices (which is discussed later.) There is no clear definition as to whom the Committees are responsible, other than the member grain companies themselves. The Board of Grain Commissioners, under the Canada Grain Act, is responsible only for certain specific operations of country and terminal elevator licensing and tariffs but not for the Committees themselves. The Grains Futures Act, which has not been utilized, would provide the Board with supervisory powers over futures trading which would include the Committees. Thus, the Committees are an important but essentially unsupervised element in the system and, as a result, are regarded somewhat suspiciously by many producers. The Committees have no legal or formal connection with the Winnipeg Grain Exchange although the individual companies on the Committees hold seats on the Exchange. The Exchange has no authority over the Committees themselves.

The Committees meet each day to establish the daily street prices. The Committees assess the various factors influencing the delivery of clean rapeseed from the country to export position - rail car availability, cleaning capacity, etc. - and determine an estimated delivery date. The time allowed is normally sixty days for Thunder Bay and ninety days for Vancouver. A corresponding futures month is then selected for price determination. An operating margin is calculated, allowing for carrying costs and all the costs involved in moving the grain from the country to export position, which is deducted from the futures price to arrive at the street price. The price for any specific country point is determined by deducting freight using established rates. The margin for Manitoba and Saskatchewan is normally in the order of $.35/bushel.

The existence of two street prices is a matter of concern to some producers. The complaints arise primarily from the areas on either side of the Saskatchewan/Alberta border where the price differentials are most obvious and most pronounced. This situation is further evidence of the complexity in arriving at a street price system that is equitable in the minds of all Prairie rapeseed producers. Only close communication between producers and the country elevator companies can resolve this situation.

The Winnipeg Street Price Committee has provided a schedule showing a typical breakdown of costs that are provided for in the operating margin (Exhibit 10). A more detailed typical breakdown has been provided by the Board of Grain Commissioners (Exhibit 11). The Vancouver cost margins would be similar.

The Street Price Committees were established by agreement among the producer co-operative and private elevator companies. Both groups are represented on the Committees. The reason given for the formation of the Committees is the ready communication of rapeseed prices by radio to producers so that the producer will not be required to "shop" among various points and companies to determine when and where to deliver.

The price protection mechanism provided by hedging operations coupled with the street price setting practice provides the country elevator companies with a limited market risk situation. It is important to note that the present street price mechanism is not a fundamental feature of the open market system. Rather, it is a procedure that was initiated by the grain companies, both producer owned and private, within the structural framework of the modified open market system. Thus, if the street price mechanism is unsatisfactory, the fault lies with the control and communication functions of the overall system. Producers need to be able to voice their concerns to a responsible control body. The need for a strong control function for effective open market operation is described under the examination of the United States soybean system.

The Terminal

While export terminals are, in theory, a service or support aspect of the industry, they are, in fact, a powerful influence in the present rapeseed marketing situation, particularly in Vancouver. With demand for terminal capacity at Vancouver greatly in excess of supply and the need for maximum co-ordination and utilization of available facilities, the Vancouver terminals have been permitted to assume special powers. Also, the ownership of the Vancouver terminals by the Prairie co-operative and private elevator companies provides for a control situation which has had a major influence on the operation of the marketing system. In this report, attention has been focused on the Vancouver situation because of its relatively greater importance for rapeseed in recent years.

Typical Breakdown of Margins
Between Futures Price and Street Price
(Basis Thunder Bay) (1)

	Cents/Bushel
Handling (2)	6.0
Commission (3)	1.0
Freight on Dockage (4)	2.0
Rail Shrinkage (5)	0.25
Invisible Shrinkage (6)	1.5
Car Liners (7)	0.75
Weighing and Inspection (8)	0.25
Cleaning (9)	4.5
Risk (10)	0.75
Carrying Charge (2.75/mo.) (11) (2 mos. used as example)	5.5
Railway Freight to Thunder Bay from (12) Saskatchewan (26.5/cwt used as an example)	13.5
	36.00

1. Source: Winnipeg Street Price Committee
2. Rate established by the Board of Grain Commissioners tariff
3. The rate of $.01/bushel has been a grain industry practice for many years.
4. Calculated on the basis of dockage experience and established freight rates.
5. Derived from the difference between the loaded weight at the country elevator and the terminal unloading weight.
6. The Board of Grain Commissioners permits the terminals to deduct an allowance of $2\frac{1}{2}$ bushels if dockage is $2\frac{1}{2}\%$ or less: allowance is $\frac{1}{2}\%$ of the weight of the car if dockage is over $2\frac{1}{2}\%$.
7. At cost charged by railways
8. Paid to the Board of Grain Commissioners for services at the terminal in accordance with the Board tariff.
9. Rate established by Board of Grain Commissioners tariff
10. An allowance taken in recognition of overnight market risk since hedging cannot always be carried out the same day.
11. Made up of storage charge of $.01/bu./mo. and interest charge of 1 1/2 to 1 3/4 cents/bu./mo. (depending on prevailing interest rates). The total carrying charge will vary depending on the export delivery date.
12. Rates established by railways subject to government regulation.

Exhibit 11

COMPARATIVE COSTS OF MOVING RAPESEED THROUGH COUNTRY ELEVATORS TO C.I.F. AND F.O.B. VANCOUVER AND MONTREAL (with cleaning at Vancouver and Thunder Bay) AS AT JANUARY 9, 1970 (BASED ON WILKIE, SASK.)

		VANCOUVER		MONTREAL	
		C.I.F.	F.O.B.	C.I.F.	F.O.B.
		– cost per bushel –		– cost per bushel	
1.	Country Elevator Handling	6.000¢	6.000¢	6.000¢	6.000¢
2.	Commission	1.000	1.000	1.000	1.000
3.	Freight on dockage	1.000	1.000	1.000	1.000
4.	Rail shrinkage estimated @ 85 lbs. per 2000 bu. car @ 5¢ per lb.	.213	.213	.213	.213
5.	Invisible shrinkage at Terminal – average 500 lbs. per 2000 bu. car @ 5¢ per lb. (based on tariff allowance of 5% on dockage in excess of 2½%)	1.250	1.250	1.250	1.250
6.	Car liners per 2000 bu. car $11.50	.575	.575	.575	.575
7.	Weighing and Inspection (Inward) $4.50 on 2000 bu. car	.225	.225	.225	.225
8.	Inward W.H.R. registration	.015	.015	.015	.015
9.	Terminal cleaning @ 4½¢ per bu.	4.500	4.500	4.500	4.500
10.	Sampling and analysis at Terminal	.075	.075	.075	.075
11.	Brokerage at Terminal point	.125	.125	.125	.125
12.	Storage and Interest – 2 Months	4.500	4.500	4.500	4.500
13.	Exporters' Discount for car permit	4.000	4.000	4.000	4.000
14.	Freight to Terminal	12.250	12.250	12.250	12.250
TO:	C.I.F. Vancouver and Thunder Bay	35.728	35.728	35.728	35.728
	Terminal Elevation		6.875	6.875	6.875
	Option Commission		.100	–	–
	Weighing and Inspection $4.50 per 1000 bu.		.450	.450	.450
	W.H.R. Cancellation		.015	.015	.015
	Wharfage (6¢ per ton)		.150	–	–
	Clearing House Charges		.045	–	–
	Lake Shippers Clearance Assoc.		–	.060	.060
	Rapeseed Association Service		.500	.500	.500
	Terminal Fobbing		8.135	7.900	7.900
TO:	F.O.B. Vancouver and Thunder Bay		43.863	43.628	43.628
	Lake Freight		–	8.000	8.000
	Lake Freight Brokerage		–	.250	.250
	Insurance – Lake Marine Lake Outturn Lake War Strike and Riot		–	.654	.654
	Inward Elevators			.400	.400
	Shovelling			.500	.500
	Bank Charges			.183	.183

Exhibit 11 (cont'd)

	Lake charges	9.987	9.987
TO:	C.I.F. Montreal	53.615	53.615
	Superintendence		.040
	Wharfage		.300
	Forwarding Broker		.125
	Montreal Fobbing		.465
TO:	F.O.B. Montreal		54.080

Rapeseed is sold as pure rapeseed but handled with an average of 1.4% dockage - at an estimated price of $2.50 per bushel exporter is rebated 3½¢ per bushel .

SOURCE: Board of Grain Commissioners

The primary role of an export terminal is to receive, clean, store and handle grain for export. As the country elevators make deliveries to the terminals under their futures contracts, a warehouse receipt should be issued. This way the warehouse receipt provides for the control of the grain to pass from sellers to buyers. The availability of warehouse receipts provides for a fluid market operation in that grain received prior to a ship's arrival can be sold to another buyer and replaced by a following shipment, thus creating a cash market at the export point. In Vancouver, the problem of congested terminals has led to a situation whereby warehouse receipts are not issued and the terminals have become deeply involved in the trading operations. At the present time, the exporter either takes delivery under his contract from the terminal at the latest possible delivery date or he buys rapeseed on the basis of an exchange of futures related to the Winnipeg futures market. There is a strong feeling in the grain trade that most of the problems experienced in the rapeseed futures market stem from Vancouver terminal situations, the rail car/ship co-ordination and the handling of the futures contracts through the terminals. These difficulties, many of them technical, have had an adverse effect on rapeseed prices through continuing market inverses and wide price fluctuations. Action is being taken in an effort to remove some of the causes underlying these problems but no positive results have as yet accrued.

An agreement has been reached recently to permit rapeseed originated by other than country elevator companies on the Prairies to move through the Vancouver terminals. While the full cleaning capacity of 48 million bushels per year has never been fully utilized, it is reported that cleaning congestion presents problems from time to time. To meet this situation, study is being given to the shipment of clean rapeseed from the Prairies which may lead to greater use of the interior terminals. It is too early to determine how effective these efforts will be in correcting these problems. However, since they represent only selective action on a few segments of the problem of the overall marketing system, they can at best be expected to produce only partial results.

The comprehensive study being given by the Grains Group to the whole subject of transportation and storage of western grains will be considering the terminal situation and, until that report is available, no further comments on the marketing system implications are warranted. The various concerns over the present marketing system that have resulted from the Vancouver terminal situation are examined in a later section of this report.

Domestic Crushers

The present system provides domestic crushers with buying flexibility and some degree of price protection. Crushers can buy direct from the producer on a flat price or forward contract basis, they can buy from country elevator companies or, in some cases, they can buy for delivery on a futures contract. The crushers compete with the country elevator companies for the supply of rapeseed and generally pay street prices, subject to storage and freight allowances in some cases.

Some western crushers do hedge in the rapeseed futures market even though the present market does not provide them with a perfect hedge. To provide a perfect hedge against finished product sales, they require an oil and meal futures market. The Winnipeg Grain Exchange is currently studying the feasibility of a rapeseed oil futures market.

In the case of eastern crushers, Thunder Bay futures may offer a satisfactory hedge, at least during the lake shipping season. Lake freight rates are fairly consistent and an eastern crusher situated on the Seaway route can take delivery of Thunder Bay futures and move stocks to his plant. The possibility of taking delivery provides the eastern crusher with the kind of protection he needs against cash basis fluctuations. Recent non-shipping months as well are reported to have been favourable. With the expansion of the eastern crushing industry, and the concurrent build-up of exports through this route, the Thunder Bay futures market may become increasingly useful to both buying groups.

Exporters

The exporters perform front line sales and world market intelligence functions under the open market system. Through their foreign offices, affiliates and brokers, they are in constant touch with market and production situations around the world. They are able to rapidly relate Canadian rapeseed in available and offered volumes to world demand for competitive products.

More than twenty Canadian and international exporters are involved in export merchandising of Canadian rapeseed and other grains. The degree of involvement by any individual firm varies annually for a variety of reasons. In recent years, five or six of the major firms have accounted for a large part of the trading, but among this group relative positions have shifted dramatically from year to year. Despite the domination of the export

trading by a few firms, the market remains competitive. Exporters are assisted in their sales efforts by brokers who further contribute to the competition. As well as performing sales functions, the exporters arrange for the necessary loading, shipping, insurance and other delivery functions.

The exporter determines his price by adding to the futures price relative to which the sale is to be made, such factors as: cash basis, fobbing (free on-board vessel, i.e., loading) charges, ocean freight, insurance, and storage. The "fobbing" charge is established by the Board of Grain Commissioners and most of the other charges as well are attributable to third parties. The exporter's buying power, his knowlege of the ocean freight market and his reputation are among the factors influencing his negotiating power for such charges.

Some exporters have been originating rapeseed directly on the Prairies, purchasing from producers for delivery to an interior terminal where it is cleaned and loaded on rail cars. In such cases, arrangements are made with an export terminal to handle the rapeseed on a fixed charge basis. The terminal situation in Vancouver has precluded extensive development of this approach but the recent agreements reached with the terminal companies have cleared the way for more shipments of this type. Should foreign buyers wish to issue long term contracts, exporters are in a good position to handle such contracts and exporter activity in direct origination of shipments would increase accordingly.

In summary, the open market system provides an exporter with a means of price protection, a forward price indicator, a forward supply contract arrangement for periods of up to nine months and a flexible framework which permits direct origination of shipments with producers.

Foreign Buyer

The foreign buyer is interested in covering his requirements at the most favourable level possible. He watches relationships between various oilseeds and buys for forward delivery when he believes price levels are the most advantageous and that satisfactory crushing margins can be maintained.

In most cases, he buys on a "flat price basis" from an exporter for a fixed quantity, position and destination. Payment is made on delivery. In some cases, he may wish to use the futures market himself and goes long futures against future needs, but fixes a cash basis with an exporter. In this case, the exporter is responsible for buying the cash product and deliverying to the foreign buyer, but need not hedge.

The Canadian Wheat Board

The Canadian Wheat Board exerts an influence on the rapeseed market at several levels.

* The quota system restricts the pace of producer marketing by setting a limit on quantitites deliverable to country elevators for various periods. Although this policy may, to some extent, influence farmers' marketing patterns, the quota system should not affect price levels so long as stocks held by country elevators and terminals are sufficiently high to satisfy nearby demand. The quota system appears to be not only compatible with the present system but it enhances it by adding the feature of assured equal market access for all producers.

* The block system regulates the movement of grain from various areas. Since transportation facilities are limited and scheduling is necessary, the Canadian Wheat Board carries out this function for non-Board as well as Board grains.

Until removed by the Canadian Wheat Board recently, controls were also exercised by way of shipping permits and limitations on terminal storage. The Canadian Wheat Board controls may have contributed to the Vancouver problems of rapeseed shipments and thereby aggravated the futures market situation. The effect of operation without these and other recently removed controls cannot be fully gauged as yet.

The marketing of wheat and feed grains by the Wheat Board and the marketing of rapeseed under the open market system appear to be carried out in a reasonably compatible manner, considering the natural competition which develops for rail cars, terminal and other common services. While it may be somewhat unusual for the marketing agency for one group of grains to have a monopoly control on all transport and storage, there is no apparent evidence that this control has been used arbitrarily to the serious detriment of the marketing of rapeseed.

Transportation

The main transportation elements in the marketing of rapeseed are rail haul to export and domestic destinations, ocean shipping, lake shipping and local truck hauling. Trucking rates are not competitive with rail to Vancouver and there are no truck unloading facilities at the terminals. Ocean and lake shipping do not appear to involve any unusual or serious problems, except for the Vancouver port problems.

As for rail, the Crow's Nest Pass rates apply to grain and oilseed export shipments and domestic shipments to Thunder Bay. All other domestic rates are supervised by the Canadian Transportation Commission. There has been a long standing problems concerning domestic rapeseed rates to eastern crushers by this is not a feature of the open market system itself. The operation of the block system has been discussed earlier.

The Winnipeg Grain Exchange

The Winnipeg Grain Exchange provides a marketplace where traders can meet and establish prices based on supply and demand. Both cash grain and futures are traded on the Exchange. The Exchange, as such, is in no way responsible for the price discovery process although some regulations of the Exchange, such as fluctuation limitations, may have effects on short-term market reactions.

The Exchange has the power to investigate trading operations within the Exchange to protect against unethical practices causing market distortions. The Rapeseed Marketing Committee in its June 1970 report recommended more rigid self-discipline by the Exchange and the appointment of an independent supervisory authority if self-discipline is not effective.

The Committee made additional recommendations for the Exchange concerning improved communication with producers, new contracts, Thunder By delivery, oil and meal futures, and outside board members. Action has been taken on the contract months and Thunder Bay delivery contracts and most of the other items are reported to be under review.

Board of Grain Commissioners

The role of the Board of Grain Commissioners in the past has been largely concerned with the establishment of tariffs and grades, and publication of statistics. These functions have assisted the development of markets and the marketing process.

UNITED STATES COMPARISONS

Since Canadian rapeseed is marketed under a modified open market system which is subject to the effects of artifical regulations and conditions, it may be beneficial to examine another modified open market system for a commodity which is in direct competition with rapeseed: United States soybeans. It is not intended to provide a detailed description of soybean marketing in the United States but rather to outline the exceptionally rapid and sustained growth of the soybean industry in that country and the effectiveness of the marketing system which has contributed to the growth of the crop over the past thirty years.

Soybean production has risen from some 35 million bushels annually in the 1930's to one billion bushels last year and it is still increasing. Surplus carryover has been a problem only in 1968, when the U.S. Government took possession of some 133 million bushels under its support program. Since then, however, supply and demand have come into balance; in fact, at the present time, crushers are having great difficulty in meeting nearby demand. Disappearance reached 1.3 million bushels in 1970, with a crop of 1.14 billion bushels and government stocks have been depleted.

With recent improvements to strains, rapeseed can compete directly with soybeans in export and domestic markets. Rapeseed oil content is far higher than that for soybeans (42% as compared to 18%) and the meal, although of slightly lower protein content (38% as compared to 44-50% for soybeans), can compete as a livestock protein supplement. On the basis of the relative values of the oil and meal, rapeseed is worth considerably more than soybeans on a per pound basis. The prices of oilseed crops are more sensitive to vegetable oil levels than meal levels, since artificial proteins can be added to feed supplements when the price of meal reaches a certain level. This explains why rapeseed prices tend to follow oil rather than meal.

Key Factors in the System

The effective operation of the open market system for United States soybeans rests on a number of factors.

* Competition at Country Level

  Country elevators compete price-wise in the buying of soybeans from farmers. Competition at the country level has tended to improve the efficiency of country

elevator operations and thus reduce operating costs. The farmer thus can expect to receive the best price possible. No restrictions as to when the producer can market his product or as to the elevator to which he must deliver are enforced in the United States.

* A transportation system which permits the movement of the commodity into position rapidly and at competitive rates

In the United States, there is competition among several railways and, in addition, a large proportion of the soybeans move into position by trucks at rates competitive with railways. Shipment by barge on the numerous rivers in the U.S. midwest is also practical and prevalent. This transportation system permits a rapid movement of the product and tends to reduce the possibility of short supplies at strategic points, which may cause cash squeezes or short supplies against long futures during delivery months.

* Adequate terminal elevator capacity and easy access to delivery points

Chicago is the only futures delivery point for soybeans in the United States. Experience has shown that elevator capacity in Chicago is sufficient to avoid tight situations during delivery months. It is not, however, primarily the capacity of Chicago elevators which accounts for the effectiveness of delivery point and, therefore, exerts the stabilizing effect on the overall marketplace. Chicago's proximity to the U.S. soybean growing areas and the effective truck, railway and barge transportation system are the key factors in making the futures market work.

Excessive stocks in Chicago can have a bearish effect on the market, but in this case, stocks can move out in several directions to other markets when demand appears at any one point:

- through the lakes to export or eastern domestic points;

- down the river system to domestic or export markets or trans-shipment points

- out by rail to domestic crushing outlets

This flexibility of movement into and out of Chicago accounts, to a great extent, for the effectiveness of the open market trading system in the United States.

The market can reflect an overall situation and not just a local one. If, for instance, farmers in Illinois are holding onto their stocks, supplies can move in from Minneapolis or St. Louis. The various types of competitive transportation systems accelerate the movement of stocks into position at competitive rates, which reduces the likelihood of cash squeezes, and tends to favour the maintenance of a carrying charge relationship on the futures and between futures and cash prices at all times. Inverses occur only occasionally.

* Competition between elevator operators and merchandising companies

A large number of elevator companies and merchandisers are in constant competition in the handling and selling of soybeans in the United States. This factor contributes to the effectiveness of the system, in that collusion between buyers and sellers is rendered very difficult, thus permitting the market to function normally.

* Existence of oil and meal futures contracts

The existence of oil and meal contracts traded in Chicago, but deliverable in Decatur, Illinois, permits domestic crushers to hedge against price declines in the product market, thus protecting margins on the sales they have made for forwarding positions. It also permits vegetable oil and protein supplement users to hedge themselves against price increases on their future needs. Since both crusher and user can depend on a marketing mechanism which protects

them against adverse price swings, they can plan far ahead and, thus, assure effective crush and merchandising programs.

* A price support program

The United States Government through the Commodity Credit Corporation (CCC) provides a floor price at which it will buy soybeans and otherwise support soybean prices. This CCC program tends to stabilize the market and the producers can be assured of a minimum price from the government if free market prices fall below a certain level. Thus, the producer is protected from the adverse effects of severe price decline while, at the same time, the market is allowed freedom to find its level. The market price may actually fall below the floor price but the program deters volume selling in response. In other words, the support price reduces the downside risk to producers while permitting them to enjoy the benefits of favourable upside market prices. The market stability engendered by the program is a benefit to the whole industry.

* Strong trading regulations (1)

Transactions for future delivery in certain domestically produced commodities are constantly under the scrutiny and supervision of the Commodity Exchange Authority (CEA), an agency of the U.S. Department of Agriculture. The CEA administers and enforces the Commodity Exchange Act. The commodities covered are wheat, cotton, rice, corn, oats, barley, rye, flaxseed, grain sorghums, mill feeds, butter, eggs, Irish potatoes, wool tops, grease wool, onions, fats and oils (including lard, tallow, cottonseed oil peanut oil, soybean oil and all other fats and oils), cottonseed meal, cottonseed, peanuts, soybeans and soybean meal. (Not all of these commodities are now actively traded on futures markets.)

1. SOURCE: Understanding the Commodity Futures Markets; Commodity Research Publications Corp., N. Y., 1965

Generally speaking, the Act provides that no organized futures trading may be conducted in any of the specified commodities, except on an exchange that is officially designated by the CEA. All the domestic exchanges, where trading takes place in regulated commodities, made application under the Act and are designated as "contract markets". To maintain their right to a designation, these exchanges must comply with certain stipulations of the Act and the rules and regulations issued thereunder and generally co-operate with the CEA for the protection of customers who trade through member brokers. The Act also forbids cheating, defrauding, dissemination of false information and manipulation.

The Act provides that commission merchants trading in regulated commodities must be registered. The registrations must be accompanied by financial statements which are carefully scrutinized by the CEA. Registrations expire as of December 31st of each year. A new registration is also required if any important changes of partnership or ownership occur during the year, as set forth in the rules.

Definite regulations provide for the complete segregation of customers' funds from brokers' funds. The Act requires not only segregation of customers' funds received by brokers as margin, but also money or equities accruing to customers.

When depositing customers' funds, within the provisions of the Act, brokerage firms must notify the bank of the nature of the funds by appropriately labelling the account and obtain an agreement from the bank, waiving any claim or right of offset which the bank might otherwise have against such funds.

The Act gives the Commodity Exchange Commission, which is composed of the Secretary of Agriculture, Secretary of Commerce and the Attorney General, the authority, after certain prescribed procedure, to fix limits of individual trading positions in commodity futures covered by the Act.

For example, the limit on net long or short positions for individual speculative accounts has been set at 2,000,000 bushels in any one futures or in all futures combined of any one grain on any one contract market. Limits on position and daily trading do not apply to bona fide hedging transactions.

Relationship of Chicago Soybeans to Winnipeg Rapeseed

In the introduction to this section, it was indicated that rapeseed and soybeans are in direct competition and that value relationships are conditioned in part by the value of the component products.

The value relationship between Chicago beans and Winnipeg rapeseed however, is complicated by exchange and volume per pound differences, by the reputation of the two crops from the standpoint of quality and supply, and by the functioning of the marketing system in the two countries. Since rapeseed has a higher oil content, it tends to be influenced more easily by oil price levels.

Commodity trading companies and speculators follow the relationship of prices between the two markets and, when prices get out of line between the markets, they will "spread" between the markets in order to bring levels back to true market values. As a general rule, free play of the markets quickly and smoothly holds the two commodities in competition. At times, when exceptional conditions prevail in either market, this pressure to achieve parallel and relative market values may be reduced.

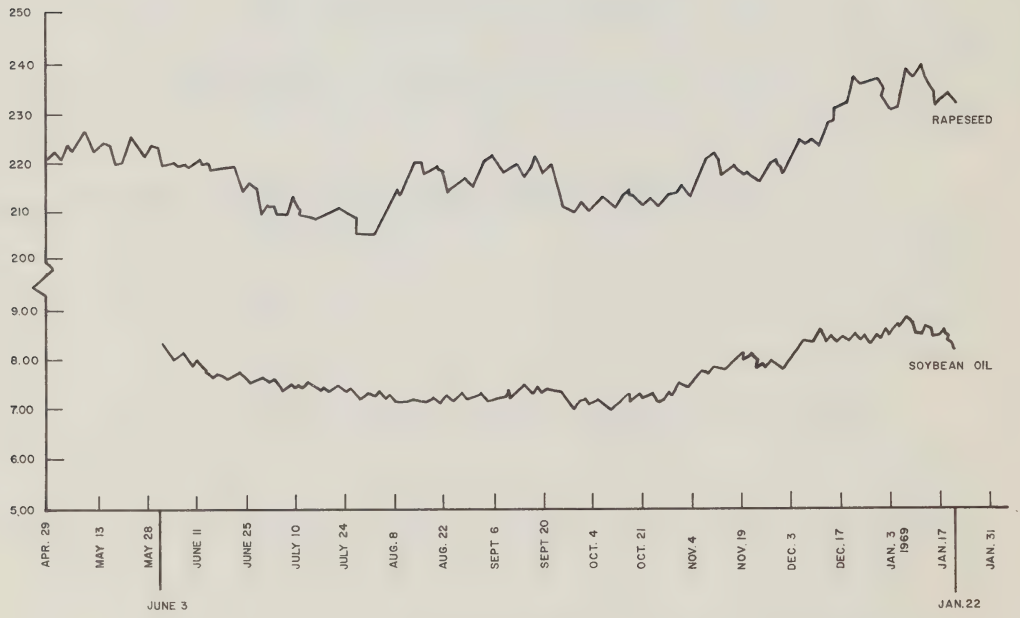
Exhibit 12 showing the January 1970 futures contracts shows a normal situation. In Exhibit 13, a tight rapeseed market situation creates a break in the general pattern. In calculating comparative commodity price trends over time, the tight situations are adjusted by using deferred rather than nearby prices. Given the favourable long term world outlook for edible oil, soybean oil is likely to constitute a major price indicator for rapeseed for some time.

Conclusions on U.S. Market Comparisons

The four keys to the success of the open market system for U.S. soybeans appear to be:

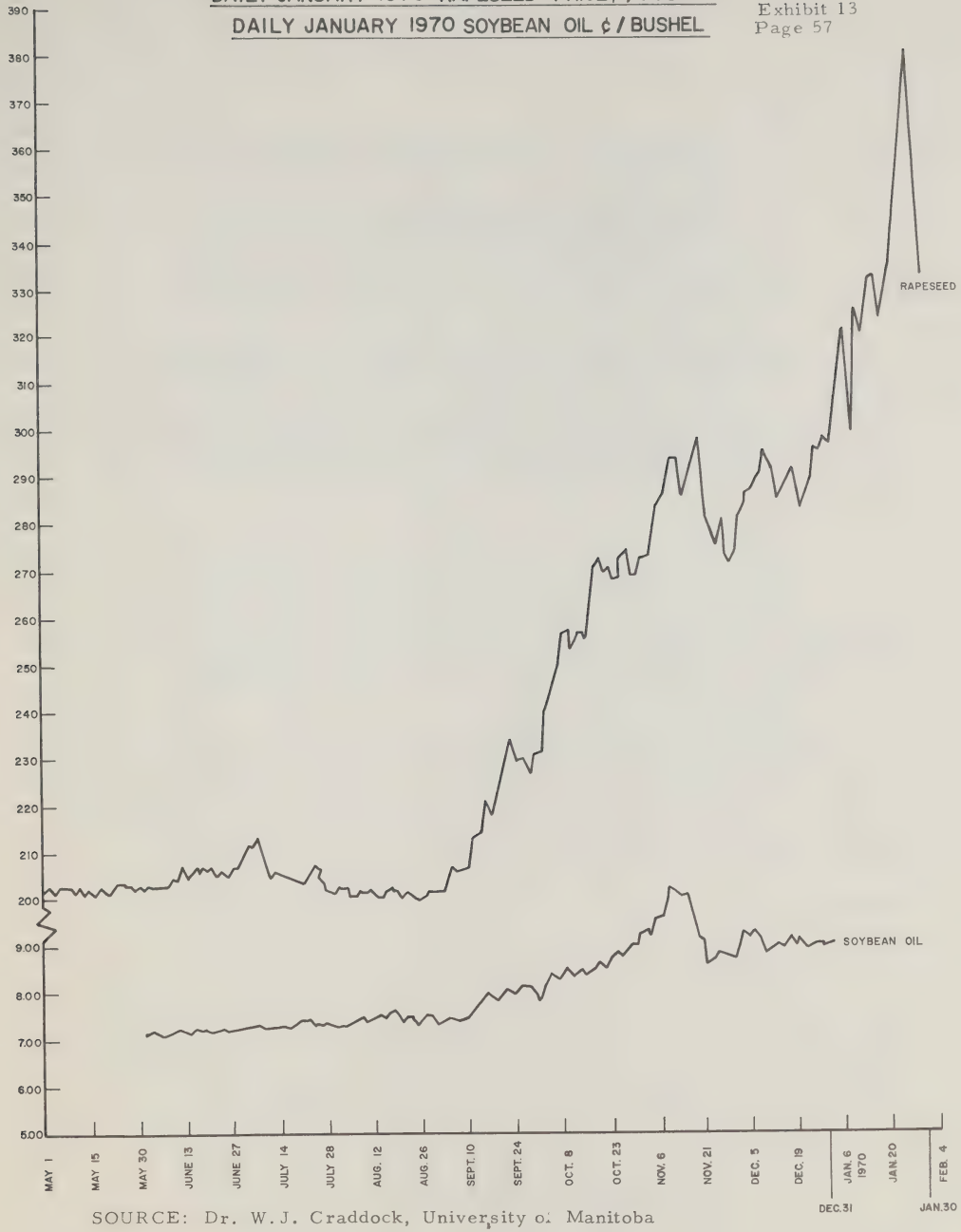
* A sound technical situation providing for easy and economical movement of soybeans to market

DAILY JANUARY 1969 RAPESEED PRICES ¢ / BUSHEL
DAILY JANUARY 1969 SOYBEAN OIL PRICES $ / 100 POUNDS



SOURCE: Dr. W.J. Craddock, University of Manitoba

DAILY JANUARY 1970 RAPESEED PRICE¢ / BUSHEL
DAILY JANUARY 1970 SOYBEAN OIL ¢ / BUSHEL



SOURCE: Dr. W.J. Craddock, University of Manitoba

* A support price that contributes to market stability

* Competition among the elevator, terminal and merchandising companies

* A strong regulatory framework to ensure ethical trading

Canadian geography, transportation and institutions do not create as attractive a situation as exists in the U.S. However in recent months, action has been taken to overcome some of the deficiencies and Grain Group studies of transportation and storage may yield further improvements. Support prices are an aspect of overall government agricultural policy and beyond the scope of this project.

Relative to the U.S., competition does not exist to any major degree in the marketing system among exporters. The Rapeseed Marketing Committee recommendations concerning a stronger supervision of trading are consistent with the U.S. regulatory situation.

In general, whereas the U.S. system has the apparent benefits of overall design, effective control and supervision, a fluid transportation system and a support price, the Canadian system at present appears haphazard and in need of redesign to maintain the best elements in the open market concept consistent with necessary regulations and support in the public interest.

EVALUATION

Current Concerns

Some producers organizations have voiced concerns about the functioning of the open market system for rapeseed. In its research, the Rapeseed Marketing Committee explored these concerns and determined that they could be grouped into five categories (although all five are closely inter-related).

- Inverted futures prices
- Excessive price fluctuations
- Spread between future price and street price
- Transfer of warehouse receipts
- Delivery points

* Inverted futures prices

"Inverted futures prices" is the grain trade terminology for a situation in which deferred futures prices are lower than nearby futures prices.

Inverses are attributable to the market's interpretation of the existence of marketing difficulties. The market, in other words, is conscious of the possibility that cash commodity shortages may develop at a delivery point and reacts in this way. In such a situation, long hedgers prefer to be long the nearby future as a backstop in case they are unable to buy cash rapeseed in Vancouver at a satisfactory price.

Short hedgers, on the other hand, prefer being short the deferred months since they experience delays and uncertainties in moving their rapeseed into position.

In the case of Vancouver rapeseed, inverses are related to the capacity for Vancouver to supply a nearby demand which exists or is expected to develop. Based on past experience and future expectations, the market anticipates that Vancouver export operations will have difficulty in keeping up with the cash market demand. Recognition of the continuing problem in Vancouver leads to buying pressure in the nearby months and selling pressure on the deferred futures months, resulting in a continuing inverse on the futures market. The causes of inverses are, therefore, a combination of technical and market factors. The technical factors involve weather, transportation, block system, cleaning, terminal storage and handling, etc. Market factors include the thinness of the market and squeezes.

Inverses are not exclusive to rapeseed or the present market system. They occur from time to time with Chicago soybeans, for example, and with commodities traded under a controlled supply system using the open market; for example, barley at Thunder Bay.

The adverse effects of inverse markets are felt by many participants in the grain trade including the producers. In the absence of a normal futures market carrying charge, country elevator companies and other short hedgers must be extremely careful in selecting the deferred months in which to hedge. If they are required to move their hedges forward, they will incur a loss in an inverted market. In effect, there is a storage penalty, not a storage charge. Exporters are normally long hedgers and they experience difficulties with high nearby prices and the lack of a cash market. The producer is frustrated by the fact that he is generally unable, because of the delivery system, to take advantage of the high nearby prices, although a few enterprising producers are known to have done so from time to time. More importantly, the producer is penalized by an inverse because the street price must be determined on a deferred futures price in recognition of the delayed delivery resulting from the rigidity of physical movement and associated documentation. *

Action has been taken over the past several months to facilitate the movement of rapeseed to Vancouver. This includes the removal of the Canadian Wheat Board shipping permit and storage restrictions. If successful, this should help to alleviate the inverse situation but so far there appears to have been limited improvement. In addition, if Thunder Bay develops as an export point for rapeseed and takes some of the pressure off Vancouver, there is hope in the trade that Thunder Bay will move out of an inverse market, at least during the shipping season. It is foreseen as an opportunity to demonstrate a more true futures market function. However, all such action on elements of the system is likely to prove only partially effective until a comprehensive review is made in the light of U.S. experience and contemporary Canadian conditions. Only in this way will proper balance be maintained in terms of controls, supports and operational machinery.

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* The Vancouver Grain Exchange amended its bylaws in April, effective May 3, as a step towards the resolution of this problem.

* Excessive Price Fluctuations

Excessive price fluctuations refer particularly to the sharp increases which have been registered for nearby futures during delivery months. These price distortions are, in effect, inverted markets in their most extreme form. Their causes are, therefore, essentially the same as those of the inverted market, only more pronounced.

The difficulty of access to the Vancouver market and the relatively limited storage capacity of this port leads to tight cash market conditions for rapeseed. Available shipping capacity, a short term market opportunity or some other reason creates a demand for cash rapeseed in Vancouver. When such nearby demand appears, particularly during a delivery period, exporters will sometimes be forced to hold onto their long positions (take delivery under the futures contract rather than reversing their hedge), in order to cover their cash sales. In such a situation, unless terminals are able to move stocks into Vancouver very rapidly or have stocks in position, a cash squeeze will result which will have the effect of inflating nearby futures to levels well above real market value.

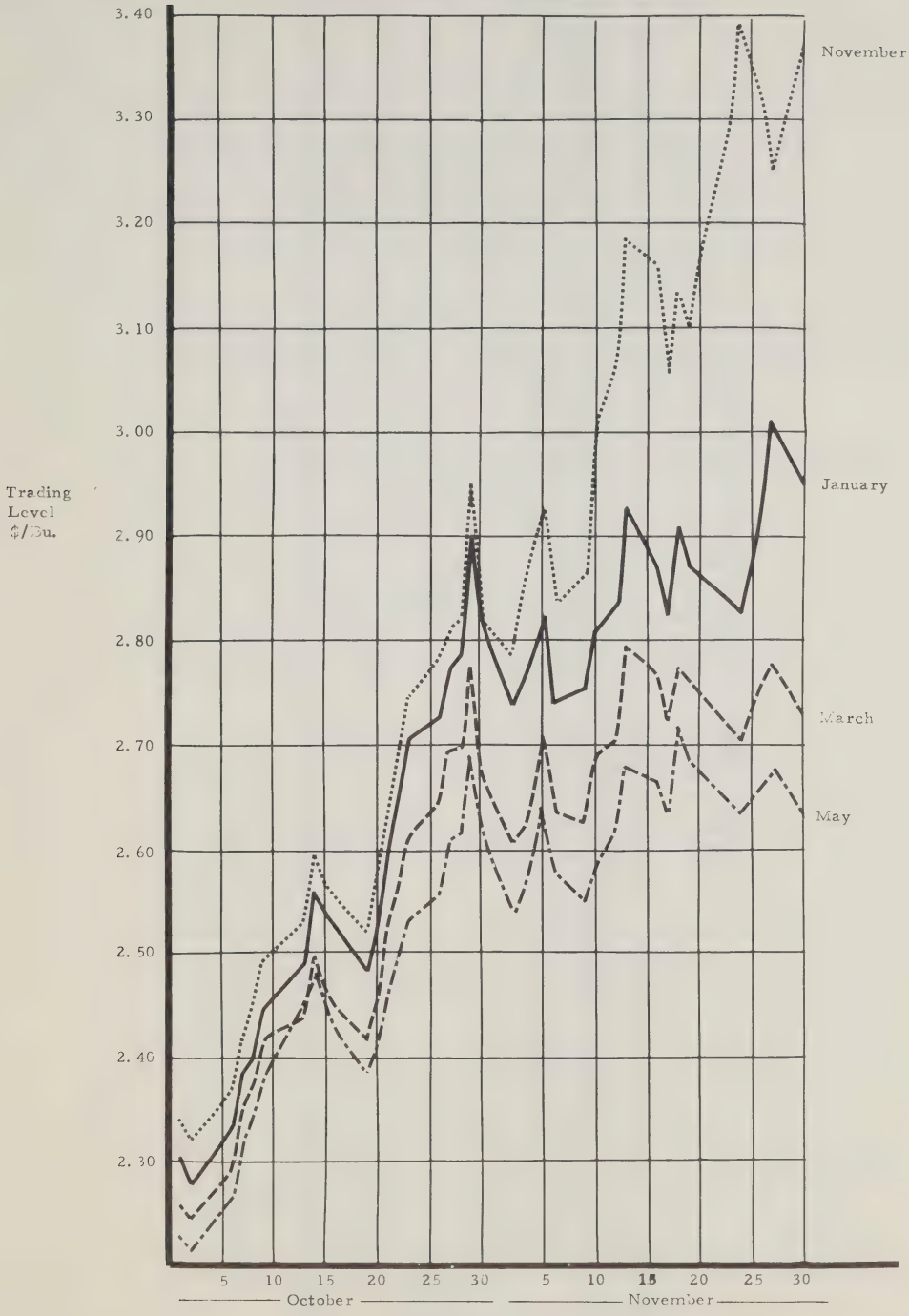
The problem is not so much the lack of space for rapeseed in Vancouver as the inability of the terminals to move rapeseed into position rapidly because of transportation limitations and restrictions and the absence of any free or uncommitted stocks; that is, there is no real cash market. The inverted futures market provides no incentive and, in fact, provides a penalty for the carrying of cash stocks. The geographic location of Vancouver apparently renders movement by alternative transportation impractical. Furthermore, with a few exceptions, shorts or sellers of futures contracts have not considered the interior points to be advantageous delivery locations.

An example of a cash squeeze situation is shown in Exhibit 14. Rapeseed futures prices for Vancouver during October and November of 1970 are plotted for the delivery months of November, January, March and May. This Exhibit shows two significant market features: first, the almost consistent inverse prices which underlie the problem, (that is, the nearby months' prices are higher than the deferred months') and second, the widening of the spreads between months and particularly between the nearby month and the first deferred as the November future reached maturity. Early in October, the spread between November and January held at about 2 - 4 cents inverse. The spread between the November and the January increased to 42 cents inverse before the November went off the board.

It is important to look behind these figures to determine the key influential factors. One of these is the amount of actual trading that is taking place to make up these public prices. Exhibit 15 shows the "open interest" (outstanding contracts) for each week during the same period in 1970 as shown in Exhibit 14. Paralleling the rapid increase in prices during the month of November was a rapid decline in the open interest. The open interest is reduced both by deliveries under the contracts and by the exchange of futures contracts. The latter transactions, which do not go through the clearing house, are a major element in the Vancouver market situation. From a peak of 3.3 million bushels in early October, the open interest fell to some one million bushels by the end of October and 132,000 bushels by the latter part of November. Actual trading to arrive at the futures prices for late November, was, therefore, extremely light. A small quantity of free stocks could have easily met the cash market needs and deflated the market.

If deliveries were more prevalent, the market would tend to go to a carrying charge as nearby supply would be more than adequate to meet demand and longs would tend to liquidate their positions in the nearby future unless they absolutely needed the rapeseed. There is a feeling among some producers, crushers and others that the Vancouver squeezes are the result of an intentional corner on the

RELATIONSHIP BETWEEN FUTURES MONTHS



YEAR 1970

SOURCE: Dr. W.J. Craddock - University of Manitoba

OPEN INTEREST IN VANCOUVER RAPESEED FUTURES

WEEKLY VOLUMES IN OCTOBER AND NOVEMBER 1970

Open Interest	WEEK ENDING															
	October 2	October 9	October 16	October 23	October 30	November 6		November 13		November 20		November 27		December 4	
	Open Contracts at Close	Open Contracts at Close	Open Contracts at Close	Open Contracts at Close	Open Contracts at Close	Open Contracts at Close	Del.	Open Contracts at Close	Del.	Open Contracts at Close	Del.	Open Contracts at Close	Del.	Open Contracts at Close	Del.
Nov.	2,999	3,326	2,959	2,944	1,098	924	0	651	0	363	82	132	79	-	84
Jan.	3,671	4,281	5,053	5,619	6,156	6,629		7,187		7,150		7,240		6,935	
March	1,041	1,287	1,597	1,821	2,243	2,548		2,892		3,920		4,548		5,047	
May	893	939	1,401	1,522	1,520	1,811		2,005		2,425		2,410		2,624	
TOTAL	8,604	9,833	11,010	11,906	11,017	11,912		12,735		13,858		14,330		14,606	

SOURCE: Dr. W.J. Craddock - University of Manitoba

market by speculators. This aspect of the market was not examined in this study. The Winnipeg Grain Exchange has the power to review trading positions to ensure that no unethical practices are taking place. The recommendations of the Rapeseed Marketing Committee for stronger supervision should correct any abuses of this nature should they occur.

Exhibit 14 shows another significant feature of price fluctuations in the nearby month; namely, the steep rise in the last ten days of the contract month. This appears to be the market's anticipation of the tight situation that prevails in Vancouver in the last days for delivery under futures contracts. At this time, the interior terminals no longer provide an alternative delivery point and the full market pressure is on Vancouver.

Some producers have taken advantage of this nearby price situation and realized the premiums available if they were in a position to deliver to interior or Vancouver terminals. Trade reports indicate that such deliveries have had the effect of deflating the market temporarily.

As the volume of rapeseed trading grows and if the mechanism of the market becomes better known, more deliveries at interior terminals are likely. Producers or others taking advantage of the situation will benefit and the nearby futures market fluctuation should be reduced. To show the way in which some producers have secured premiums, an example has been taken based on Exhibit 14. The producer might have decided to enter the market on November 14 when the price had reached $3.18 cents per bushel. He would have had clean rapeseed on hand or have arranged cleaning to export grade. He would have sold a futures contract and delivered his rapeseed to a government terminal at the alternate delivery points of Edmonton, Calgary or Saskatoon. (He had to arrange with a licensed buyer to stamp his quota book). The futures clearing house arranged delivery to an individual who was long the future (one who must take delivery and pay the futures price to the producer). For example, the producer's price at the interior delivery point, if he delivers by truck, might have approximated the following:

Vancouver Futures Price		$3.18 per bushel
Less Elevation & Other Charges	.07	
Rail to Vancouver	.13	.20
Net Return		$2.98

If the street price for the same selling date were based on January, the street price might have been in the order of $2.64 (futures price of $2.99 less country elevator margin of $.35). Thus, the producer would have received an extra $.34 per bushel.

The squeeze during a delivery month is the most common cause of severe price fluctuations on the nearby month in the market. However, in some cases, the market will react rather sharply to trade news or hedging pressure. Most traders attribute this to the relative thinness of the market. This thinness occurs not because of the potential number of buyers and sellers but rather the limited number at any one time, that is, the number of buyers exceeds the number of sellers or vice versa. As indicated in Exhibit 15, the open interest may be extremely thin toward the end of a delivery month and this may have had an effect on the rate of market price change.

Respecting volume, rapeseed tends to overreact relative to the soybean market where the open interest in futures contracts is generally at least thirty times greater. Accordingly, an exporter may cause the market to increase by a few cents when he tries to hedge against a 40,000 bushel sale if selling hedges are not coming in. By contrast, in the U.S. soybean market, similar transactions would hardly effect the market due to the much greater volume of trade. Unfavourable crop news or heavy country selling could have a similar effect on the downside again on account of the relative thinness of the market.

Another causal factor in price fluctuation is the relationship between the rapeseed futures and the soybean oil market, the latter being traditionally a volatile commodity.

In the examination of the matter of price fluctuation, two statistical analyses were made. The first set was

concerned with the range of daily fluctuations for two sample contract months. The November contracts for 1969 and 1970 were selected. The daily fluctuations were analyzed in terms of change each day. Taking the total days during which the contracts were traded, the fluctuations were analyzed into percentage groups of change. The results are summarized as follows:

Daily Price Fluctuation	November 1969	November 1970
0 - 1 7/8 cents/bu.	55.8	9.4
1 7/8 - 4 7/8	28.7	81.9
5 cents +	15.5	8.7
Total	100%	100%

These analyses indicate that the fluctuation in the November 1969 contract was, for the majority of days, less than $.02/bushel. For the November 1970 contract, the fluctuation was greater but 81.9% of the daily change was less than $.05. A fluctuation of $.02 to $.05 in the majority of days presents a price change of only 1 - 2% on a commodity price of $2.50/bushel.

As a second yardstick against which to measure the fluctuation in rapeseed prices, the percentage change in the prices of rapeseed, soybean and soybean oil were calculated using the January 1970 contracts for all three commodities. January represents a traditionally volatile month for rapeseed because of annual shipping problems in Vancouver. The results are shown in Exhibit 16. The Exhibit shows that soybean price changes were relatively steady whereas rapeseed and soybean oil were more active. This pattern is consistent with the close relationship of rapeseed to soybean oil rather than to soybeans. For all months, rapeseed shows less percentage fluctuation than soybean oil.

In summary, fluctuations in rapeseed prices for nearby months are an extreme aspect of the inverse market prices. The three main causes are technical delivery problems, squeezes (which are primarily attributable to technical problems) and market thinness. Action is being taken to improve the technical situation. Squeezes should be

Exhibit 16

COMPARISON OF PRICE FLUCTUATIONS
RAPESEED, SOYBEANS & SOYBEAN OIL
JANUARY 1970 FUTURES CONTRACTS

AVERAGE RANGE High - Low				AVERAGE RANGE High- Low % of Average Monthly Price		
Month	rapeseed cents/bu	soybeans cents/bu	soybean oil cents/cwt	rapeseed	soybeans	soybean oil
May '69	.554	---	---	.27	---	---
June	1.125	.774	.051	.55	.33	.72
July	1.31	1.012	.047	.64	.42	.65
August	.806	.827	.101	.40	.34	1.37
September	3.30	1.065	.121	1.52	.44	1.58
October	5.43	1.647	.204	2.09	.66	2.40
November	5.875	1.316	.385	2.07	.53	4.10
December	5.04	1.214	.245	1.76	.49	2.74
January '70	7.47	N/A	N/A	2.25	N/A	N/A

Notes: 1. The average high-low price ranges for the January 1970 contracts were derived by taking the daily ranges for each and dividing by the number of trading days.

2. The percentage range was determined from the average high low price range for the month relative to the average closing prices for the same month.

N/A - Not Available

Prepared by Dr. W.J. Craddock - University of Manitoba

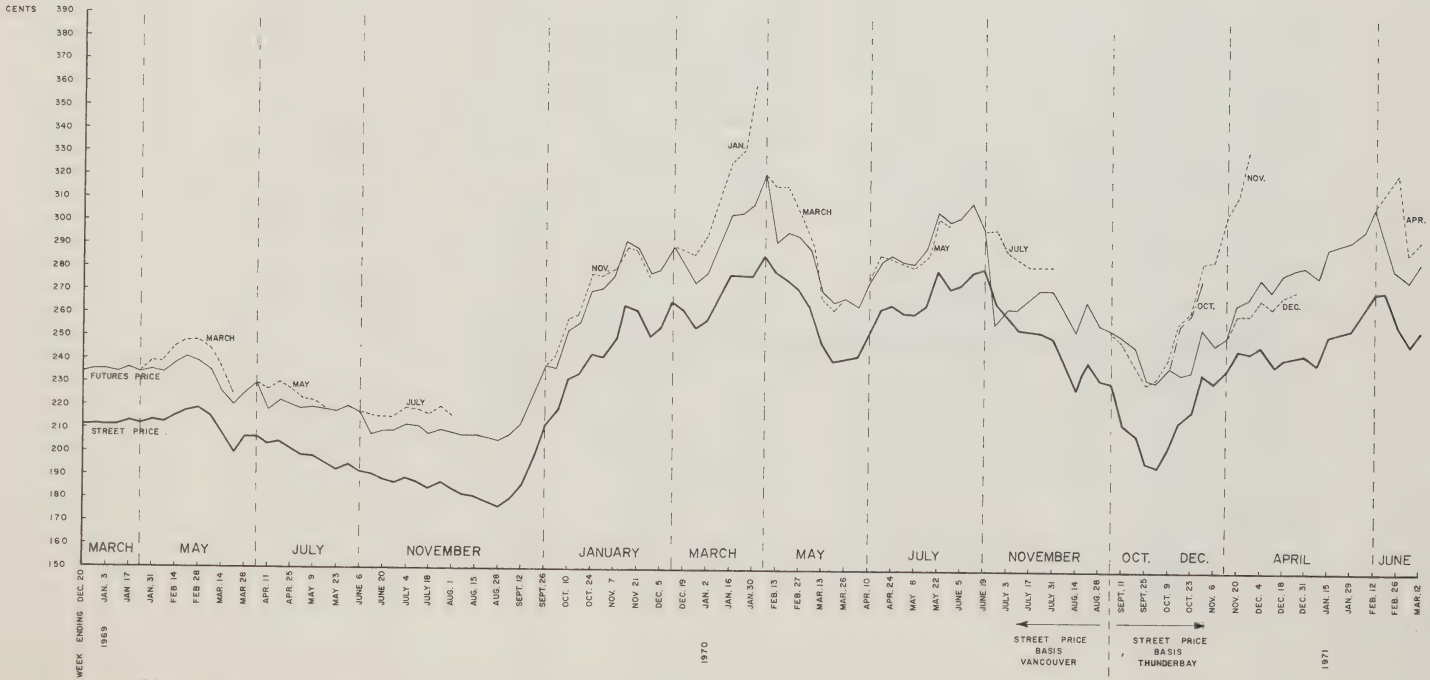
alleviated by improved technical operations and better supervision if corners are a factor. The thinness of the market should be reduced as the production of the rapeseed grows and interest increases accordingly. While extreme fluctuations are not desirable, rapeseed price changes do not appear out of line with those of soybean oil.

* Spread between futures prices and street prices

Another current concern relates to the wide spread which exists between the street price and the highest futures price on the board. In a previous section, the method for determining the street price by deducting an operating margin from a deferred futures month has been described as well as the technical reasons that dictate the need to base the price on a deferred rather than the nearby month.

To show the relationship between the various market prices, Exhibit 17 has been prepared showing the street price, the nearby future and the deferred future on which the street price was based for the period December 30, 1969 to March 12, 1971. The general relationship betweeen the street price and the futures price is indicated as well as the wider spread as the future reaches maturity with an inverse market operating. The margin normally ranges from about 30 to 40 cents, the three elements being the handling margin (17 cents) freight ($13\frac{1}{2}$ cents as an average), and carrying charges. It is the carrying charges for storage and interest that bring about the major variances in the margin. The making of street prices is a complex process and the examples provided in this analysis are designed only to indicate the basic elements. Occasional anomalies occur in the price relationship, some of which are reflected in the Exhibit. These may be attributable to special circumstances that require a variation on the conventional pricing procedure but they were not researched in length.

RAPESEED PRICES. FUTURES PRICE , STREET PRICE , WEEKLY AVE.



SOURCE: Dr. W.J. Craddock, University of Manitoba

The underlying factors to the spread between the nearby future and the street price have been examined in detail earlier. In summary, the key aspects are: 1) by reason of delivery delays, the street price must be based on a deferred month; 2) the nearby price is not a realistic comparison with the street price since it is based on an extremely thin market; 3) some producers and grain companies have been able to secure premiums on nearby futures through deliveries to interior and Vancouver terminals; 4) the concern about street price/futures price margins relates to the wider problem of an inverted market; 5) the manner in which street prices are established is a practice of the country elevator companies; 6) stronger trading supervision as recommended by the Rapeseed Marketing Committee should be beneficial in alleviating the concerns on this matter; 7) the Grains Group is seeking to overcome the technical and transportation and storage problems that are among the root causes; and, 8) a thorough analysis and redesign of the present system, not its individual elements, is indicated.

* Transfer of Warehouse Receipts

The matter of warehouse receipts relates to the way in which terminal capacity is managed to meet demands on Vancouver during heavy export periods. The objective of the Vancouver Grain Exchange is to facilitate the movement of open market commodities through Vancouver. According to its by-laws, it is possible to buy grain in store or for future delivery. In actual fact, this is not the case as a result of a by-law interpretation secured by the Vancouver terminals.

The two parties most directly affected by the Vancouver warehouse receipts situation are the terminal companies and the exporters. On the one hand, the terminals want to control the warehouse receipts to have maximum flexibility in managing the physical handling of rapeseed stocks. The terminals' position is that they want to make best use of their receiving, storage, cleaning and loading facilities in the face of heavy demand and uncertainties in the arrival of ships and rail cars. By holding back the

issuance of warehouse receipts until the vessels are in position, they are able to plan their operations more precisely.

On the other hand, exporters would like to secure title to their rapeseed at the beginning of their contract delivery period. This would give them extra flexibility in ocean shipment planning and, in some cases, allow them to make additional nearby sales. Also, delivery of rapeseed against futures contracts would be more feasible. While the terminals have been able to secure a favourable arrangement under the governing by-laws, the exporters have been unable to exert effective joint counter-action to secure a revision to the procedure.

Although the Winnipeg Grain Exchange has no authority in this situation, it is seeking to have remedial action taken and other interested organizations such as the Rapeseed Association of Canada are taking initiatives as well. A program is under negotiation involving revised rules through the B.C. Grain Shippers Association which is designed to resolve the situation.

The warehouse receipts problem is an example of an institutional practice which has been permitted to develop under the present system. The solution lies in stronger overall supervision and a clear definition of the operating rules for each of the participants.

* Delivery Points for Futures Contracts

Another reported concern is the situation respecting delivery points for rapeseed futures. For Vancouver contracts, delivery can be made at Vancouver or, ten days prior to the end of the contract month, at one of the government interior terminals. With the establishment of the Thunder Bay contract last year, another delivery point was created.

The multiplicity of delivery points for rapeseed, in sharp contrast to a single delivery point for soybeans, reflects the complexity of grain marketing in Canada attributable to the country's geography. As rapeseed grows in volume and its

marketing mechanism becomes better understood, greater use is being and will likely continue to be made of the alternate delivery points and the new futures contract at Thunder Bay. The dramatic growth in rapeseed in the past two years has placed a great strain on the present system and considerable experimentation is underway to make it responsive to the new needs. Various aspects of the delivery provisions under future contracts are under review in an effort to improve the system to the benefit of all parties.

Evaluation Against Criteria

Three sets of criteria have been established against which to evaluate each system:

- Selling price
- Risk bearing
- Marketing efficiency

* Selling price

The evaluation in terms of selling price must consider three components: the world selling price (or export price); the cost of selling; and, the net price to the producer. With respect to world markets, the present system provides for a quick and accurate reflection of the competitive position of Canadian rapeseed in the world oils market. The forward price indication feature of the futures market provides guidelines up to the most distant futures contract, generally nine months away. This signal of forward prices is of great value to producers and the trade and it is one of the leading strengths of the present system.

Rapeseed is still a relatively new oilseed crop and as such, it is striving to seek its own level among competitive oil products. The present system has permitted it to do this effectively and increasing volumes of rapeseed have been sold at increasing prices to producers. In addition to assisting rapeseed to become established in the export market, the present system has been effective as well in developing a growing market among domestic crushers at competitive world prices.

Whether or not the present system resulted in the maximum price possible for Canadian rapeseed is too speculative for consideration in this analysis. The technical acceptance of rapeseed has delayed market growth and the rapid increase in volume has created some uncertainty as to what Canada's long term production capability may be. Once these problems of technical acceptance and assurance of long term supply reliability are resolved, then a more precise analysis can be made of the world selling price situation.

While Canadian rapeseed prices are geared basically to the world oil market, the present system is not rigid and provides for a variety of sales arrangements including contract sales on various bases, cash sales and forward supplies delivered on futures contracts. An important feature of the present system is the provision of a forward price protection mechanism which benefits merchandisers, exporters and crushers, all key parties to the marketing process.

As for marketing costs, they are made up of two elements: physical handling, storage and transportation costs; and, selling costs. As indicated in earlier sections, most of the cost of rapeseed marketing, that is the movement of rapeseed from the farm to the export market is made up of freight, handling, cleaning and other charges. The actual cost of marketing functions is relatively modest although no detailed analysis has been made.

The method of determining the street prices in the operation of the present system has been discussed. Regardless of the questions deriving from the use of a deferred month (and the reasons which underline this practice) and the Street Price Committee arrangement, there is a linkage between the street price and the supply and demand of the market which creates the world price for soybean and other oils. The linkage within the system may need improving but the open market system does provide the overall structure. Despite the imperfections of the system, it has provided a vehicle for the marketing of increased supplies of rapeseed at increasing producer prices.

Practical yardsticks with which to measure the results of the various marketing systems are difficult if not impossible to define. To be scientific, one would need two directly comparable sets of circumstances and, of course, such do not exist. However, steadily increasing prices with an increasing volume of rapeseed marketings, modest marketing costs and increasing producer returns per bushel and per acre are positive features. Price fluctuations, inverse markets and the other marketing concerns discussed are negative features and, while they detract from performance, they do not negate the results achieved under the present system. While it may be argued that these negative features have resulted in a lower net selling price to the producer, the fact that they are attributable primarily to technical and institutional features rather than the system itself suggests that any marketing system would experience similar difficulties.

Under the open market system, such marketing difficulties are readily visible (although their causes may not be) and action can be taken by producers, the trade and the government toward their alleviation.

* Risk Bearing

The present marketing system provides for a hedging mechanism to protect against price increases or declines. The country elevator companies and exporters make the most use of this mechanism and generally bear limited risk. The producers bear the bulk of the risk for price declines and the "risk" or opportunity for price increases, the latter trend having been more dominant in recent years. To the extent that a few producers hedge or buy futures contracts to take nearby premiums, they use the market system to reduce risk. Speculators, by definition, take considerable risks at the present time since that is their function. Foreign buyers, domestic crushers and others buying on flat forward contracts bear risk but this is generally done willingly or knowingly or both. Domestic crushers have some hedge at the present time by using the rapeseed market and the soybean oil market. If the studies underway by the Winnipeg Grain Exchange indicate that a rapeseed oil market is feasible, then this will improve their position.

For country elevator companies engaged in grain trading, the hedging mechanism is essential since the price risk to be borne would be beyond the means of any individual company. Also, to secure bank financing, daily hedging is required as the banks will not assume a financing risk otherwise.

Foreign buyers make use of Canadian hedging facilities periodically but not regularly. They generally buy from exporters on a basis of a fixed price per ton for certain delivery dates. In some cases, they prefer to buy on a cash basis, that is they fix a price relative to the future for forward delivery. They are therefore exposed to some risk but it is done knowingly.

Unlike the marketing of wheat and feed grains for which the government has provided a subsidy payment in the event that prices fall below the announced initial price, rapeseed has not received subsidy support. The new Grain Receipts Policy should eliminate this subsidy provision and equalize the government support position respecting all grains.

* Marketing Efficiency

Movement and Storage

It has been pointed out that the open market system as it operates in Canada has no direct influence over the movement and storage system. On the other hand, the marketing system is influenced substantially by the efficiency or inefficiency of the movement and storage system. The contrast between the marketing systems for rapeseed in Canada and for soybeans in the United States and the influence of transportation and storage on the two market systems has been described.

There is no apparent evidence that the Canadian Wheat Board has used its control over the transportation and storage system to give preferential treatment to wheat and feed grains over rapeseed.

However, the arrangement does provide an unusual environment: rapeseed cannot compete with other commodities for its share of transport and storage facilities under the control of a neutral third party. It must accept the allocation of facilities by a "competitive marketing organization". This is no criticism of the Canadian Wheat Board's management of the block system and other control mechanisms which is generally regarded to have been fairly effective. However, the arrangement does eliminate market competition for the facilities, one aspect of the open market system approach to realizing more efficient transport and storage.

The open market system for marketing rapeseed is not well suited to achieving efficiency through controlled designation of delivery points in view of the social, economic and political environmental factors involved in such action. The system is oriented to responding to a given set of circumstances more than to changing circumstances. Under the open market system, the methodology that has evolved for dealing with problems of movement and storage has been action by the Rapeseed Association, producer organizations and other groups. Such efforts have been influential in achieving improvement in transportation and handling through logic and persuasion rather than direct control. The results of this action are not readily measureable but they are substantial and have been beneficial to the producer.

The analysis of the street price indicated that of an average margin of $.35 between the futures and the street price, nearly every element was under the control of the Board of Grain Commissioners or the railways. Therefore, savings in movement and storage must be secured by more efficient operation of the system with a reduction in the tariffs or through delivery control. The former is under study by the Grains Group and the latter to regulation by other government agencies. Control of deliveries could be achieved to some degree under an open market system if the country elevator companies were to restrict delivery points, but producer pressure for the maintenance of

numerous local delivery points has militated against this. To the extent that producers are willing to permit grain companies to concentrate deliveries, greater efficiencies can be realized. The issue is essentially whether or not producers wish to continue to assert influences on the handling companies to maintain more delivery points or accept a degree of direction and control from the grain companies or a central agency.

Servicing Established Customers Overseas & Domestic

The international oilseeds market is dynamic and volatile, unlike wheat which is more stable. Other features include a larger number of buyers, both large and small, with scattered destinations, varied purchased quantities and different delivery dates. The present system has effectively responded to this market situation as indicated by a growing number of established customers who are buying greater volumes at increasing prices.

The flexibility of the system permits exporters to easily and rapidly assemble sales to various destinations over time, thus enabling them to maximize sales and reduce transportation costs. While the exporters provide the front line sales force, they are supported under the present system by brokers and by marketing programs of the Rapeseed Association of Canada, the Federal Department of Industry, Trade & Commerce and others. The Rapeseed Association has been particularly active with technical and sales missions.

The present system has provided a framework for the domestic crushing industry to experience steady growth of which the tripling of capacity now underway provides concrete evidence. While the hedging mechanism provided is not perfect, it is used extensively by domestic crushers. Recognition of the needs of the domestic industry is reflected in the proposal to establish a rapeseed oil futures market.

Exporters have no particular loyalty to rapeseed as they sell a variety of competitive products. Therefore, the marketing and promotion effort for Canadian rapeseed must come from the trade and government organizations.

Despite this limitation, the leading sellers of Canadian rapeseed in recent years have been some of the international export trading companies. The effectiveness of the present system is reflected in the fact that, even with the CWB marketing program, exporters still account for slightly more than half of Canadian wheat exports and nearly all feed grain export sales.

Finding and Maintaining New Customers

The comments made concerning established customers apply to new customers as well. The list of customers for Canadian rapeseed is increasing both domestically and internationally. The system provides flexibility in meeting the needs of buyers since not all trading must go through the Exchange and a variety of contract selling and pricing arrangements is possible.

Conclusion

The present open market system has evolved from the principles of the free play of demand and supply in the marketplace as applied to the realities of the grain trade, transportation and governmental environment in Canada today. The evolution process has resulted in a number of problems of concern to producers and others. Some of these problems penalize producers while others are simply irritants.

An evaluation of the Canadian system for marketing rapeseed against the U.S. system for marketing soybeans provides a number of useful clues as to the deficiencies in the present system. If the system is to be made to operate more effectively, an overall review of the total system and not just individual elements is needed. Despite its shortcomings, this system has provided the means to sell increasing volumes of rapeseed at increasing producer prices with limited carryover problems. The world market conditions of the 1970's are changing rapidly and the situation must be monitored carefully to ensure that the Canadian rapeseed marketing system is effective in maintaining Canada's position. The concept of an open market system has efficiency in the movement of rapeseed from the producer to the consumer as a primary objective. This concern with market efficiency and the need to force out non-efficient elements is not found in compulsory market systems. It is a feature of the open market that should be fostered through proper design and control of the various system elements.

OPEN MARKET SYSTEM/VOLUNTARY POOLING

Description

Voluntary pooling is a sub-system under the framework of the open market system. The concept of pooling over a season arises from a producer desire for an average annual price. Underlying this motivation may be a personal or political philosophy, a practical wish that one producer be treated on an equal basis with his neighbour, a desire not to have to outguess the market as to the best time to sell, or a feeling that someone else may outsmart him because of his lack of market information. In any event, there is a great deal of support among prairie producers for pooling.

Voluntary pools can be arranged on a scale ranging from one producer to the whole industry. At the one extreme, an individual producer could decide to sell 1/12 of his crop each month (subject to a quota) and thereby "pool" to arrive at an average price for the year. At another level, a group of producers in a district could agree to pool their returns and establish a delivery schedule. On a similar though a slightly larger scale, a cleaning plant, crusher, small grain company or similar organization could form a local or regional pool. There could be pools on a provincial level although these might prove difficult to administer. At another level, each of the major grain companies could operate a pool for its patrons (as was once done for rapeseed and is currently being done for other crops). Ultimately, there could be a Prairie pool for all those producers wishing to participate.

Insofar as rapeseed is concerned, there has been some experience with some local or regional voluntary pools operated by western crushers and cleaning plants, a Canadian Wheat Board voluntary pool in the late 1940's, and some grain company pools in the late 50's and early '60's.

Voluntary pools are typically initiated by cleaning plants, a grain company or some other business interested in securing an assured supply or making a profit through the use of its expertise to improve the returns to the producer. To be effective, a pool operator must have some assurance that the producer will deliver a certain amount of grain during the production year; this is normally achieved by means of a contract. Contracts may be entered into prior to planting, during the season, or when the crop is harvested. From the producer's point of view, the pool must do better than he can do for himself or he is not interested.

To take advantage of the market conditions, delivery dates are important. For this reason, voluntary pools can operate to best advantage under open quota arrangements; delivery quotas may present some difficulties if they are too restrictive. If the pool operator can schedule producer deliveries, he can operate more effectively than if the producer makes the delivery decision. Such scheduling appears to be possible only in smaller pools where communication problems are minimal.

The pooling contract normally involves an initial or advance payment, possibly a progress payment and a final payment. The results are dependent on the grade and location of the stocks of grain as well as the judgement of the pool manager.

A Prairie voluntary pool would involve all producers who wished to participate but they could sell part of their crop in the open market (along with non-pool participants). Such a pool would provide producers with a yardstick against which to compare performance (as opposed to compulsory pooling which does not provide any yardstick of performance). Several pools would provide more measures of marketing performance.

A Prairie voluntary pool would require management by some designated agency, for example, a producer owned and operated body, a joint venture involving all the country elevator companies, the Canadian Wheat Board, or possibly a combination.

Evaluation

* General

In its report of June 17, 1970, the Rapeseed Marketing Committee drew the following conclusions concerning voluntary pooling:

> "The system of voluntary pooling has been tried in the past but the evidence appears to be that it did not work satisfactorily. The general practice of the private sector of the grain trade as well as the growers' own handling organizations, of hedging almost immediately the purchase made from producers created some problems. The average price obtained over the crop year would not be the same in every case and, for competitive reasons, it could mean one company dipping into its cash resources

to match the prices paid by another company. The price obtained in any of these pooling arrangements would in any case not be the average market price, but rather the average of its own sales obtained by each company conducting a pooling arrangement. To be effective, a pooling system would have to envisage the pooling of the entire crop."

A major reason for this conclusion was the feeling that producers would deliver outside the pool if market prices were higher than the advance payment. Delivery contracts could overcome this arrangement. Background to this and other arguments for and against voluntary pooling have been examined.

When considering voluntary pools in Canada, some perspective is provided by the experience of the voluntary wheat pools in the late 1920's and early 1930's. The pools had their origin in the early 1920's arising from a distrust of the Winnipeg Grain Exchange and speculative marketing in the sale of wheat, a somewhat similar feeling to that which currently exists among some rapeseed producers. The operations' downfall came in 1929 and 1930. In 1929, the advance payments turned out to be too high in the face of a declining market. With the support of the chartered banks and the provincial governments, a second pool was operated in 1930 with the same results. The Federal Government took action to support the pools and the provinces with the appointment of the Central Selling Agency, succeeded by the Canadian Wheat Board in 1935. The losses were eventually repaid by the pools.

The history of the original pools and the reasons for their failure stirs a strong emotional response in the grain industry. This experience as it relates to the possibility of rapeseed pooling today is summarized as follows:

- The market conditions at the time were extremely turbulent making it difficult for any pool to operate, particularly a new venture.

- The pools were somewhat inexperienced as to the best action to take with respect to selling in a worldwide open market system when, as a matter of policy, they had elected not to use the price protection mechanism of hedging but preferred to speculate on price change.

- There was a different producer climate at the time of the formation of the original wheat pools than now exists; currently, larger scale farms, a different concept of agriculture and better farm management techniques prevail.

- Wheat involves a single commodity now sold largely under an international agreement. Rapeseed is only one of several interchangeable commodities in the international edible oils market, most of which are priced on the open market.

- The considerable experience gained respecting commodity pools and commodity marketing generally in Canada, the U.S. and internationally, and the higher overall level of technical and management skills now available, e.g. computers, more rapid communication, management information systems, etc. provides an improved marketing environment.

The foregoing observations indicate that voluntary pooling as a method for marketing rapeseed should not be dismissed on the basis of the experience of the original Prairie wheat pools. The products and circumstances are vastly different. Therefore, the advantages and disadvantages of voluntary pools for rapeseed should be studied on their own merits and not on philosophical or historical considerations relating to the Prairie wheat pools of forty years ago.

The experience with grain companies' rapeseed pools of some ten years ago was unsatisfactory, at least insofar as the companies were concerned. Some of the criticisms may still obtain but others have been eliminated or reduced by virtue of different circumstances. For example, the crop has increased in volume nearly five-fold since 1963 and the futures market is now operating.

In view of the important role of the grain companies in rapeseed marketing, their expressed concerns were examined in the light of current conditions from the point of view of the producer:

- Difficulty in Showing Results Comparable to the Market

  Since pools work on an average, their performance must be judged against average market sales, not top prices. There is a tendency among some producers to make unrealistic comparisons. Even against average market

prices, some pools may show less favourable results than outright sale as a result of quality and location of stocks, selling decisions on the part of the pool management and so forth, and because producers with preferred product quality, quota situations, or some other reason might take advantage of this position to make a better return outside the pool. Nonetheless, voluntary pools can provide a group of producers with an average sale price over the season that would be comparable to their neighbours and provide for a shift of the marketing decisions to the pool manager who has access to more up-to-date information and a better understanding of the system.

- Necessity to Subsidize Pools to Meet Competitive Levels

While this may be a problem for pool operators, it does not penalize the rapeseed producer. If one pool achieves and pays a higher average price than another, then it will tend to attract more participants in the following year, thereby rewarding the more efficient operator. The producer can thus exercise his "customer vote". On the other hand, if the pool operators all meet the best price, then the producers who participated in the pools with lower returns would not be penalized. However, from a practical point of view, this situation would not receive the grain companies' support and a Prairie voluntary pool would meet with more general acceptance.

Since the Federal Government has subsidized Wheat Board pools in the past, advocates of the voluntary pooling system advance the idea that the government could provide a guaranteed initial payment for rapeseed as well. With the new Grain Receipts policy such subsidies should become irrelevant.

- Difficulties in Pricing Carry-over at Pool Year End

This problem is virtually eliminated with the operation of the futures market as the stocks should be fully hedged.

- Enforcement of Delivery Under Contract

There is a feeling among many grain companies and producers that voluntary pooling will not work because the producer will not honour delivery agreements if market

prices are higher than the pool initial price. One justification given is that contract buyers have on occasion failed to take delivery as agreed and, therefore, the producer should be able to likewise break the contract. Although a contract is enforceable in the course in the event of default, private grain companies and co-operatives alike are reluctant to enforce the contracts for fear of alienating producers. This being the case, it should be possible to introduce a third party bond, as is commonly done in other industries to ensure performance or to provide for impartial arbitration. Another possibility is that the pool be permitted to exclude producers who have defaulted. In this way only the producers who were prepared to support the pool would realize its benefits in good markets as well as bad. Inasmuch as many producers already operate under contract, there appears to be little reason why voluntary pools could not, over time, develop the necessary spirit of confidence (and enforce it if required) to foster greater participation among Canadian rapeseed producers.

Consideration of the foregoing factors leads to the conclusion that while several competitive pools operated by grain companies or other groups might prove beneficial to the producers, the only practical possibility for large volume pooling is a Prairie-wide voluntary pool as suggested by the Rapeseed Marketing Committee.

* Selling Price

Insofar as pricing is concerned, voluntary pooling would operate in accordance with the principles of a modified open market system as it operates in Canada, using the international oils market to determine the price of rapeseed. The futures market would be the basic pricing guideline under voluntary pooling but, just as other pricing arrangements can be made under the open market system at present, the pool operator could negotiate sales contracts with domestic crushers and foreign buyers, take futures market premiums and otherwise use maximum flexibility to secure the best average price. The imagination and skill of the pool operator would be measured against the average market price (the average deferred future on which the street prices were based).

The fact that the pool operator contracted only part and not all the Canadian rapeseed crop would not seriously limit his ability to achieve maximum returns for the crop since rapeseed is such a small factor in the international oils market that it cannot significantly influence the world oil supply situation. Even if all the supplies of Canadian rapeseed were withheld from the international market, it is unlikely that the long term effect on price would be substantial since the price is so closely allied to that of soybean oil. However, if a voluntary pool operation controlled a large block of supplies throughout the Prairies or in a particular area, it would be in a strong negotiating position with some of the domestic crushers, particularly those in the West.

As for selling costs, the pool operating costs would be additional to those experienced for open market sales except insofar as direct contracts and other marketing means were used which would not involve any of the conventional market functions and associated commissions. The cost of pool management would be deducted from the pool returns. It is difficult to estimate the costs but they should be modest since the organization needed is small and closely related to the size of the pool.

The net producer price would be the net from the pool operation and would be measured by each producer against the average price paid at his delivery point throughout the year. Given favourable conditions, the pool operator should be able to compete effectively with the street price over the long term, but in some cases, the return would no doubt fall below the average market price.

From the producer point of view, a voluntary pooling system would provide an average price for those who desire a pool price, the freedom of choice for those who do not favour compulsory marketing, a standard of performance against which to measure and open market sales alternatives for producers who prefer to manage their own marketing. Also, given the position of rapeseed in the international oils market, there is no evidence that voluntary pooling would adversely affect or favourably influence the world price of rapeseed; but voluntary pool marketing under expert management might be able to secure advantageous margins from time to time for the pool participants.

* Risk Bearing

Under voluntary pooling, producers would not bear the risk of market fluctuations individually; they would share it with other participants in the pool. However, their risk might be shared or reduced by other parties; for example, by the pool operators if there were several competitive pools in operation or the Government if a support price system operated as it has in the past for wheat and feed grains pools.

Depending on their role in the operation of the pools, the risk borne by the grain handling companies would vary. However, assuming that they did not operate competitive pools, their risk would be the same as at present. Domestic and foreign buyers would bear the same risk as at present except that long term contract negotiation would be facilitated. Exporters would be subject to the same risk as at the present time. The Government would bear added risk only if it were to undertake a price support plan.

* Marketing Efficiency

The effect of voluntary pooling on marketing efficiency is foreseen as follows:

- Movement and Storage

  Voluntary pooling would enhance the movement and storage of rapeseed only to the extent that it could realize more centralized control over deliveries. In general, this is more possible for local than for large scale voluntary pools because of communication problems. However, to the extent that a Prairie voluntary pool could do so, through the negotiation of enforced delivery controls or the offering of incentives (such as potential transport savings), efficiencies might be realized.

- Servicing Established Customers

  Basically, the present system would prevail but if short and long term supply contracts under any system were found to be feasible in terms of a fair producer/buyer pricing arrangement, then voluntary pooling could be useful in assuring buyers of continuity of supply. The

holding of larger blocks of stocks and the ability to exchange futures would be of benefit.

- Finding and Maintaining New Customers

Voluntary pooling would achieve little or no change over the present system in the search for new markets. However, the Prairie pool might establish a check-off for market development.

- Product Development and New Uses

There would be limited influence except insofar as a pool or pools could bring to bear more pressure for research by others or, in the case of a Prairie voluntary pool, a research check-off might be instituted.

Conclusion

Voluntary pooling could provide some added benefits to the producer within the open market system. Only a single Prairie pool appears feasible at the present time since the grain companies are not in favour of company pools. Among the problems to be resolved in implementing a voluntary pool system are the enforcement of contracts, the organization to carry out the pool administration and the securing of adequate producer support.

PART III - COMPULSORY BOARD SYSTEMS

THE CANADIAN WHEAT BOARD

The System in Theory

Marketing grain through a system such as the Canadian Wheat Board (CWB) has the following major objectives:

* equal and equitable access to markets for all producers of grain in a specified region;

* a pooled price for each commodity and grade sold;

* greater bargaining power for producers vis à vis monopolistic buyers, particularly in international markets;

* greater operational efficiency of the marketing channels - transportation, storage, handling;

* elimination of a costly and unreliable price discovery as experienced in commodity exchanges in Canada;

* maximization of revenues for both producers and the trade.

The system on which the operations of the CWB are presently based evolved over a number of years. The years between the early 1920's and the institution of the permanent Board in 1961 marked a transition period from an "open" to a so called "orderly" market system. Marketing of agricultural products is defined as "orderly" when organized by a board or agency under government delegated authority. Orderly marketing requires compulsory participation by all producers of an agricultural commodity in a specified area. Intermediate stages included different forms of collective bargaining, price negotiations, voluntary pooling, and a combination of functions performed collectively by the pools in the open market system.

The social, economic, and political forces which combined to bring about the change in marketing since the thirties cannot be considered without mentioning the instituted success of the farmers' co-operatives, as well as the failure of the pools to manage the

marketing functions in the initial stages of board type marketing in Canada. Only after voluntary pooling and supply management on an industry-wide scale had failed were the instruments for compulsory marketing of agricultural commodities developed and a marketing board responsible to the government rather than the producers, entrusted with the job farmers were not able to perform for themselves.

The system necessarily restricts the economic freedom of the individual farmer. To implement the concept of equality of access to markets, the Board instituted a system of delivery quotas distributed throughout the crop year. In order that returns from all sales of a commodity and grade may be equally distributed, revenues obtained over a crop year must be pooled. Thus, the functions of the Board of Grain Commissioners regarding grading and inspection of marketing had to be brought into relation with the Board's system of operation and administration. The same applies to transportation. Equality and equitable access to the market would be impossible if the transportation system served a restricted number of buyers or favoured one region over others. The same consideration also applies largely to the storage, cleaning, and handling facilities of the line elevators.

The Canadian system of trade in wheat and other board grains tries to recognize the interests of private and co-operative enterprises in the business. The Board operates on a contractual basis and annually negotiates agreements with firms whereby grain handlers become agents of the Board. The costs associated with the functions performed by agents of the Board are fixed by the Board of Grain Commissioners, partly as a result of collective negotiations between the CWB and grain handlers. Conditions of the grain trade under Board rules are standardized and apply uniformly throughout the system.

The CWB receives support from farm organizations mainly because of the guarantee of equal access and the requirement for pooling. The argument was also forwarded that a large number of farms supply grain in a highly competitive structure on the selling side but face a very small number of buyers with monopolistic bargaining power. It is generally felt that without the Wheat Board farmers would be in an extremely weak bargaining position.

Selling wheat through a single selling agency, the CWB, is incompatible with the existence of a grain exchange and with the open market system. With a single seller, invested by nature with monopoly power, a futures market cannot function properly. It was, therefore, logical to discontinue the open market for wheat at the Winnipeg Grain

Exchange. However, the Board allowed and the Winnipeg Grain Exchange maintained a highly artificial barley futures market. This was apparently done to facilitate specific needs for some form of hedging and price discovery peculiar to Canadian trade in feed grains.

In theory, agricultural marketing by agencies like the CWB should be accompanied by significant declines or stable costs of functions performed (transportation, storage, handling, administration), resulting in an improved bargaining position for the Canadian farmer and in increases in net income from wheat and feed grains.

Of great importance in a study of board marketing is the general attitude of farmers toward the price making process in the open market system. As it had been generally observed that the street price seldom relates to the spot price or the nearest futures, many farmers regarded the open market system as unrealistic, unstable, and misleading and took a generally negative attitude toward a situation in which they believed that speculators and a small percentage of "big business" rigged prices and extracted a monopolistic profit to the detriment of the farmer. Neither the trade nor the Exchange was successful in dispelling this belief. The presence of corners and squeezes, inversions of markets, violent shifts in producer prices, and similar features of the futures markets became important factors in initiating the search for alternatives to the open market system by which greater price and marketing stability could be assured.

The process of price discovery in imperfect or monopolistic markets, as created by the Wheat Board's becoming the sole buyer of wheat (and of certain feed grains for export purposes) at the farm level and the only seller of this grain, requires special attention. When the open and futures markets are eliminated, price discovery hinges solely on accurate observation and forecasting based on information gathered through agents of the CWB in all markets in the world where wheat, barley, or near substitutes are sold. Moreover, the long term commitments of our own country and of our competitors must be known. Understanding the trends of international trade and the balance of payment problems of buyers and sellers is essential. It requires active participation in trade negotiations, particularly where the stage for long term arrangements is being set. With the support and assistance of the government and representatives abroad, a board can utilize all the methods and tools available to a monopolistic seller. In the domestic market, a higher price for wheat used as bread grain can be agreed upon. Further price differentiation can be applied in foreign markets where necessary. Such a procedure may not apply exclusively to prices but more often to conditions of sale, credit, and delivery, long term contracts, and other special arrangements.

To people who have experienced monopolistic conditons on the part of buyers of Canadian wheat the creation of a countervailing force is a logical step. Because an increasing percentage of our sales are going into countries where all imports are government controlled, it is the opinion of the Board and the supporters of board operations that marketing of wheat by an organization like the Wheat Board assures Canadian farmers will be protected and that income from grain can be maximized.

The functions of the CWB are limited by law and do not include some of the key responsibilities usually attributed to institutions of this kind. The Board is solely a buying and marketing agent. Decisions regarding production of agricultural commodities do not lie within the realm of the Board's powers and remain the responsibility and privilege of the individual farmer. Neither does the Board perform all the functions generally associated with marketing. Some of the key functions (for example, price discovery) are retained by the Board. Other functions (storage, transportation, cleaning, handling) may be contracted out by the Board to commercial or co-operative firms, to the transportation system, or to other agencies. But in all cases, the CWB has a strong influence due to its position.

Rules and regulations of the Board are not uniform, and each grain is handled according to different criteria developed in the process of adjustment toward a more flexible approach to marketing. In recognition of differences in the nature of commodities, markets and channels of trade and commerce for bread grains and feeds differ. Other main differences stem from the distinction between domestic requirements and export opportunities. Wheat for example, is sold primarily in foreign markets and only a limited quantity can find buyers in Canada. Marketing procedures, channels and movement controls for wheat are export oriented; in marketing of feed grains, particularly barley, domestic needs dominate.

The CWB is an agency of the Crown and is responsible to the federal government. It is a non-profit service organization to farmers. Costs associated with the operation of the Board are deducted from revenues obtained from the sale of agricultural commodities before final payments to producers are determined. The operation of the Board is guaranteed by the government, and occasional losses due to unpredictable marketing are covered by government subsidy.

WHEAT BOARD MARKETING IN PRACTICE

In pursuing its objectives the Board maintains basically two marketing schemes, one for wheat and one for feed grains, especially barley.

Because wheat is the main agricultural export commodity, the Board here assumed its widest control over marketing. How Board actions affect participants, producers, and stakeholders in marketing is outlined below.

* The Producer

The CWB does not interfere in the decision making process regarding production of wheat. How much to produce and by what means rests entirely with the producer. It should be recognized that the Board indirectly, through the quota system, influences farmers' decisions regarding planting. Consideration must be given to the final payment for last year's crop and the total carry-over at the end of the crop year. In addition, the market position of commodities from alternative land uses (barley, other feed grains, rapeseed) and government agricultural policy (for example, the LIFT program) affect the acreage seeded to wheat.

For the crop year 1971-72 the CWB has authorized quotas for specific grains and, if necessary, grades of grain. Quotas are based on acreages assigned by producers to the delivery of particular grains. Quotas are authorized on a selective basis to maintain adequate working space in the elevator system. The CWB intends to implement a system of "non-cumulative" quotas (regarding time limits for delivery) for wheat, barley and oats to encourage producers to deliver regularly to meet sales commitments throughout the crop year.

According to the new formula, a producer's assignable acres are determined by totalling the following:

- All land seeded to the quota grain in 1971
- Land summerfallowed in 1971
- All land seeded or planted to miscellaneous crops

- Land seeded to perennial forage (up to a maximum of one-third of the total land in summerfallow, land seeded to quota grains, and land in miscellaneous crops).

A producer is faced with distributing his assignable acres among the various grains for quota purposes.

The delivery policy for special markets - selected barley, selected oats, rye delivered to distilleries and flaxseed and rapeseed delivered to Canadian crushing plants - is governed by a quota system as outlined for selected barley (except for some acreage assignment features). Acreage assigned to selected barley must be separate from the acreage assigned to the delivery of feed barley under regular quotas and must be made in carload quantities (the production of 50 acres of land, with good yields, equal to the amount that can be handled in a 60-ton railway car). This quantity restriction does not apply to other special markets (including rapeseed) where no minimum acreage is required and the quota is based on a specific number of bushels per acre (for example 20 bushels of rapeseed for crushing plants per assigned acre). A producer who has assigned acreage to selected oats, rye, flaxseed and rapeseed to distilleries and crushing plants will be able to use his acreage to deliver these grains to a country elevator under regular quotas whenever he wishes to do so. But as with selected barley, once he has done this, he can no longer use the acreage to deliver to a distillery or crushing plant in the balance of the crop year.

Finally, when plans for the production of rapeseed with low erucic acid have been finalized, special provisions may have to be made to allow for the delivery of this grain to domestic crushing plants and country elevators for export.

* The Country Elevator

The country elevator acting as agent for the CWB buys wheat from the farmer. On delivery of board grains an agreement is made between the farmer and the elevator operator regarding the weight, the grade, and the dockage, and the farmer receives a cash ticket equal to the initial payment minus handling and shipping charges. The initial payment is the guaranteed floor price as announced by the government and the Wheat Board. If

the farmer and elevator operator do not agree on dockage or grade, the farmer may request a ruling by the Board of Grain Commissioners.

Grain delivered and graded at the country elevators becomes part of a commodity and grade pool (for example, Wheat Manitoba No. 1 Northern) and part of the visible supply of the CWB and the elevator company. According to their collectively negotiated contract, the CWB must pay the companies:

- handling charges in the amount of 5-3/4 cents/bushel. Of this, which 3-3/4 cents is officially allotted for physical handling according to the rules of the Board of Grain Commissioners and 2 cents goes toward their functioning as agents for the Board;

- storage in the amount of 1/30 cents/bushel/day;

- interest on the money borrowed from chartered banks that is required for the initial payment to farmers according to the cash ticket mentioned above.

* The Terminal Elevator

Grain handling in port terminals is also contracted between the CWB and the elevator company. As a rule terminals are a part of a system of line elevators, and these companies enjoy a high degree of freedom in the administration of their own warehouse and handling complexes for both board and non-board grains. The number of warehouse companies with terminals is limited, and they constitute in themselves a kind of oligopoly vis à vis the CWB.

Terminal elevators receive wheat based on shipping orders issued by the CWB. Terminal elevators perform important functions in the system, particularly because this is where the final cleaning and grading takes place.

The Board of Grain Commissioners estimated the average costs of moving Canadian wheat from a mid-prairie point to Japan and Antwerp/Rotterdam for the crop year 1969-1970 as shown in Exhibit 18.

ESTIMATED AVERAGE COSTS OF MOVING CANADIAN WHEAT FROM A MID-PRAIRIE POINT 1/
TO JAPAN AND ANTWERP/ROTTERDAM

CROP YEAR 1969-70

	Via Pacific Coast Ports		Via Churchill	Via St. Lawrence Ports	Via Maritime Ports	Lakehead Overseas Direct
			(cents per bushel)			
	JAPAN		ANTWERP/ROTTERDAM			
Interior Handling Costs	5.750	5.750	5.750	5.750	5.750	5.750
Rail Freight to Terminal	13.800	13.800	13.200	13.800	13.800	13.800
Terminal Diversion	---	---	1.500	---	---	---
Lakehead Fobbing	---	---	---	4.900	4.900	---
Lake Transportation Costs	---	---	---	10.574 3/	22.511 2/	---
Seaboard Fobbing	5.074	5.074	5.287	.465	2.715	5.065
Average Ocean Transportation Charges	31.884	25.520	13.776	18.212	20.557	29.692
Estimated Average Forwarding Costs	56.508	50.144	39.513	53.701	70.233	54.307

1/ Based on One Northern shipped from a selected central Western Canadian Point (Scott, Sask.)
2/ Lake to Bay Ports - Rail to Maritime Ports
3/ Montreal direct

EXPLANATORY NOTES

Interior Handling Costs	Includes country elevator elevation; inward inspection, weighing and selling charges.
Lakehead Fobbing	Includes elevation; outward inspection, weighing and warehouse receipt cancellation and Lake Shippers' charges
Lake Transportation Costs	Includes lake freight, lake brokerage, lake insurance (marine, outturn and war, strike and riot); rail freight and rail shrinkage (Maritime movement only); bank charges and agent's commission
Seaboard Fobbing	Includes elevation (not charged at St. Lawrence Ports), outward inspection and weighing (not charged at St. Lawrence and Maritime Ports); warehouse receipt cancellation; Lake Shippers' charges (Thunder Bay only); superintendence (not charged at Pacific Ports); cargo rates (Pacific Ports only); wharfage (not charged at Thunder Bay); forwarding broker (St. Lawrence & Maritime Ports) and bank charges (Churchill only).
Ocean Transportation Charges	Includes ocean freight, ocean insurance (outturn, marine and war, strike and riot); bank charges and interest charges.

Source: Board of Grain Commissioners

* Transportation

Moving wheat and other grains from country elevators to terminals is instructed by the CWB with the shipping order and arranged jointly by the elevator company and the dispatcher of the railways. The block transportation system now in operation aims at maximizing railway as well as storage capacity for handling and moving grain of grades needed by the market.

Transportation as now organized is a co-ordinated system and involves the CWB, the grain companies and the railways. The three sectors, loading, the in-transit sector and unloading are programmed and streamlined in a so-called "block system" to facilitate speedier movement of grain from country elevators to port terminals.

* Shippers and Exporters

The actual merchandising of grain is a complex operation involving the Board and the entire Canadian grain trade of which shippers and exporters form a major part. In the export markets grain can be sold directly by the Board or through the combined services of shippers and exporters as agents of the Board. The Board restricts its activity to sale of grain to other governments but does not compete with exporters in markets where traditional commercial relations prevail. In traditional commercial markets, exporters perform most valuable services.

* Domestic Users of Wheat

The CWB is the sole seller of wheat; hence, domestic buyers of the commodity must buy from the Board. The compulsory feature of domestic buying became necessary when the government agreed to a two price system for bread grains in the crop year 1968-1969.

* The Canadian Wheat Board Pricing Procedure

The Board announces separate daily asking prices for wheat:

- in store Thunder Bay;

- in store Pacific ports;

- in store Churchill;

- c.i.f. St. Lawrence ports; and

- c.i.f. Atlantic ports.

In addition to sales made at its daily asking prices, the CWB continues to provide a deferred pricing policy on export sales at the discretion of the purchaser. Deferred pricing on export sales allows purchasers some flexibility in fixing the final price. They can choose the market price on any day from the time of booking the wheat up to and including a specified number of market days after the calling of the grain. If the purchaser does not declare his option prior to the expiry date, the market price prevailing on that date is automatically used as the final selling price.

The pricing of wheat occurs in two steps:

- Toward the end of a crop year, the Board assesses the marketing prospects for the forthcoming 12 month period taking into account past sales, reported carry-over in Canada and other countries, yields in the southern hemisphere, acreage seeded, and expected total supply and demand. The Governors in Council decide upon the minimum price guarantee or initial payment for wheat and other grains sold through the CWB. This decision pertains to the named grades. The initial payment for other grades is set by the CWB.

- At the end of a crop year or at the time a pool is closed, the CWB deducts all expenses incurred from the total revenue it obtained from the sale of grain of a pool and then distributes the balance directly to the producers in the form of a final payment. Thus, the realized price by farmers is the initial plus the final payment.

  If and when the final payment is negative, in which case the CWB did not sell grain at the price expected at the beginning of the crop year when the initial payment was set, the government subsidizes the pool in the form of a direct payment to the CWB. For example, the total deficit of the Board for

the period August 1, 1968 to June 30, 1970 on account of the pools for wheat was $39,787,979:

(a) Payment to the CWB of part of the deficit in the amount of $30,265,442 was authorized by Parliament.

(b) Payment of the outstanding balance of $9,522,537 plus interest, awaited parliamentary approval at the date of the last report of the CWB.

Payment of the deficit on barley of $9,834,516 was authorized by Parliament to Note 36B of the Supplementary Estimates 1969-1970.

* Pooling

Pooling of returns to farmers has been done by the CWB since 1943. It is one of the fundamental features of wheat marketing in Canada. Each commodity and grade constitutes a separate pool whose accounting regarding deliveries, initial payment, costs associated with handling the pool, and final payment is performed by the CWB. This procedure assures equal marketing opportunities and returns to farmers for the same commodity and grade. Under normal circumstances no sales will be made from the new crop as long as there are stocks available in the old pool. In cases where a pool is being closed, residual quantities of the grain are sold to the new pool. Transfer of grains remaining in a pool at closing time occurs:

- for quantities covered by open contracts at the contract price;

- for remaining unsold stocks at the Board's quoted prices as at the close of business on July 31 of the year.

* Control Functions

The combination and co-ordination of functions performed by the CWB and the Board of Grain Commissioners tightly control the whole Canadian wheat marketing system. The main features of the control system are the rigidity in transportation by the CWB, particularly in the supervision of interprovincial movements of grain, and the institution of government grading, according to

which each producer is provided with an avenue for appeals to the final authority, the Board of Grain Commissioners. Foreign interference is prevented by a system of tariffs and by the licensing of imports by the CWB.

* The Winnipeg Grain Exchange

Wheat is being sold by the CWB through direct sales to buyers in Canada and abroad. The near perfect monopoly power vested in the CWB and, on the other hand, the small number of buyers, would make a futures market in wheat at the Winnipeg Grain Exchange meaningless and redundant.

Evaluation of the Wheat Marketing

A critical review of the CWB with reference to wheat must be concerned primarily with the question of to what extent the Board's objectives have been attained. The second area for evaluation involves the cost structure of the marketing scheme, particularly costs stemming from imperfections in the system either of a structural or an operational nature.

* Most of the objectives of the CWB marketing system for wheat were achieved from the point of view of the producers. This does not, however, apply to all of the main objectives listed. Shades of satisfaction must be differentiated and criticisms pinpointed.

Access to markets for all producers, price stability, bargaining power, and pooling remain the paramount reasons why farmers support the Board. The CWB has achieved these objectives. The Board also has become the sole bargaining agency for the grain producers. The Board holds rather strong countervailing power in international and domestic markets. It was also observed that the Board applied so-called monopolistic tools of merchandising, market, and price differentiation, long-term contractual arrangements, and government-to-government selling.

* Theoretically a board marketing scheme should succeed in lowering costs associated with the performance of market functions such as handling, transportation, and storage. Very

serious claims can be made that the marketing of wheat under Board rules was not conducive to and did not foster adjustments that come naturally wherever marketing functions have to be performed under the pressure of competitive conditions. Among other things, the CWB, the Board of Grain Commissioners, and the country elevator system allowed an obsolete and extremely costly system of country elevators to perpetuate itself at high costs for handling and storage to the farmers themselves. Another complaint is that the Board of Grain Commissioners abrogates its responsibility by allowing line elevator companies (particularly terminals) far too much freedom, which affects all operations, especially transportation and storage, and thus affects both total costs and flexibility of grain movements and exports.

A major factor contributing to the problem is the position taken by farmer-owned co-operatives and grain companies as well as by private line elevators whose interests may not be identical to those of the Wheat Board.

In defence of the CWB, it should be said that the whole question of operational efficiency associated with handling and transporting grain at the country elevator has become a matter of social concern and a political issue. Social and political issues being paramount, the efficiency of the system may have received lower priority. In reality, it appears that the Board is both a contributor to the evil of inefficiency and its victim.

* The CWB was subjected to profound criticism in the Report of the Task Force on Agriculture, by the press, the trade and in meetings of farmers for inflexibility in the price making process for grain, for wheat in international markets and for exported and domestically used barley.

Being the only seller of wheat, the Board cannot use the predictive model of a futures market. Instead, it must work within the framework of institutional constraints to which the government, farmers and the Board itself contributed. These constraints include the International Wheat Agreement and subsequent arrangements to which Canada is a signatory power and an eminent contributor. The International Wheat Agreement functioned similarly to cartel arrangements where a price range was set for a specified commodity and grade, thus necessarily restricting the Board in its pricing policy for export wheat.

The new three year International Wheat Agreement does not provide for effective price provisions. Instead it leaves it up to the International Wheat Council to search for an acceptable price formula.

Relatively stable prices are conducive to marketing a commodity which is produced without much fluctuation from year to year. To maximize revenue in the case of great variation in supply from year to year, greater procedural flexibility may be required. It was, therefore, alleged that the Board's relatively rigid pricing practices resulted in the significant and costly accumulation of surpluses, unrest in the farming sector of the economy, and government intervention.

Against this background some facts regarding international trade in wheat should be mentioned. Foremost here is that ups and downs in the wheat economy are common to all suppliers of the commodity and are not peculiar to Canada. It is also doubtful that the Wheat Board could have remedied the situation with a unilateral lowering of the price of wheat, for the greater part of the world wheat trade is based on long term contractual arrangements where price considerations are not the only factor.

Board pricing has lacked flexibility, probably more so than pricing of wheat by competitors. This was the case in the past mainly because international wheat quality and price standards were long patterned after Manitoba No. 1 Northern, and this put the onus on the CWB to maintain its position. With the development of new quality standards, the Canadian wheat producer may be relieved of this burden.

The CWB long maintained that additional sales could not be realized solely on the basis of lowering the price of wheat. Countries able to sell marginal quantities of wheat on the basis of lower prices were ones where the public treasury supplied the funds. It is doubtful that the Canadian farmer could compete in such cases.

Considering the known facts, it is likely that, in the case of wheat, the present system of price discovery and price making by the CWB will remain the only one feasible. It is also likely that we will experience a further increase in long term contractual arrangements in international marketing. Under these conditions with expected temporary oversupplies of wheat, Board marketing

for wheat may not change very much. With oversupplies of wheat on hand, the Board cannot afford to allow the domestic wheat market to find its equilibrium in an open market system. The income elasticity of demand for bread grains in Canada is negative, which means that with an increase in per capita income the consumption of wheat may go down. It is doubtful that an increase in population will add very much to the total demand for wheat. It is, therefore, reasonable to maintain the present supply and pricing policy for wheat as instituted by the Board.

* Board marketing of wheat circumvents the problem of risk bearing by preventing change of ownership when the commodity passes from one level to another in the marketing process. After delivery of the grain to the country elevator, all functions are performed by firms in their capacity as agents of the Board. This condition prevails until the grain is sold by the Board.

The government protects the system to the amount of the initial payment received by farmers on delivery of the grain (subject to the deductions mentioned) and the payment of occasional losses by the Board.

* The evaluation of the efficiency of the wheat marketing system under Board rules must above all take into account what has been said about the CWB as a whole. Carrying charges for all channels in the Board operation of the wheat pool in 1968-1969 were 24.1 cents per bushel on producer's marketings (of which the equivalent of 18.8 cents per bushel was paid from the Temporary Wheat Reserves Act payments, and 5.2 cents per bushel was paid by producers through the CWB).

The administration and general expenses of the Board applicable to the 1968-1969 Pool Account were only 0.8 cents per bushel.

- As far as the movement and storage of wheat is concerned, serious deficiencies should be mentioned as outlined. The Board inherited an antiquated system. Social, and above all political, forces have prevented reorganization of the country elevator system and the associated transportation network. The newly instituted block shipping system may have some positive effect on future development.

- Servicing established customers overseas and in the domestic markets has been regarded as a responsibility of the agents of the Board. The Board may have to prepare more trade representatives for marketing wheat and increase services to customers in all countries which are potential wheat buyers. The CWB has made initial steps toward establishing such a service.

- Finding and maintaining new customers for Canadian wheat is a most challenging assignment and can be accomplished only by a concerted effort on the part of all stakeholders in the wheat business. Because of the importance and nature of the commodity, it will be a primary responsibility of the Federal Government to set the stage for expansion of the Canadian wheat trade and use the CWB as a vehicle for this task. This is so because of import control systems imposed by foreign countries, developed as well as underdeveloped.

- Product development is not a primary function of the CWB. The Board of Grain Commissioners' laboratory, universities, and research stations are well equipped for this type of work. Instead of doing fundamental research, the CWB embarked on a program combining its functions of product development and service to customers. The CWB encourages opportunities for foreign buyers to visit Canada and get acquainted with its wheat industry, production, and marketing and with the milling and baking operations. Of even greater importance is the Board's attempt to show group buyers how Canadian wheat can be used in the milling process and in food preparation in other countries.

* Finally, the CWB has failed to communicate effectively with the people it is supposed to serve. This may be a result of its basic structure. As a government agency, not a producers' marketing board, accountable to the government and reporting through the office of a Minister, the Board is largely detached from the needs and aspirations of farmers. The creation of an advisory committee did not fill this void.

BARLEY AND OTHER FEED GRAINS

Barley and other feed grains have been produced primarily for the domestic market. It appears that initially neither the CWB nor

stakeholders in the feed grain business intended to have barley and feed grains marketed through a board. In theory there are two compelling reasons for marketing barley and feed grains by the CWB. Barley and other feed grains have a chance to succeed in foreign markets which potentially equals or even exceeds that of wheat. Secondly, storage and transportation of barley competes with wheat for the services of identical facilities provided by the same firms. In such a situation barley should be given an equal opportunity, and its competitive position will be enhanced if it receives the same attention as the formerly preferred commodity, wheat. In addition, it should be mentioned that the geographical location of barley production is such that marketing through a board may provide the possibility for pricing procedures by which the total revenue from a crop can be increased.

Based on the factors mentioned, the Board decided to apply a mixed system of marketing barley. We can distinguish three clearly differentiated markets:

* Quota barley sold on foreign markets through the Board;

* Quota barley sold by the Board mainly to eastern Canada; and

* Non-quota barley sold by producers directly to users (feeders or feed mills) on a local market.

Board rules regarding movements of grain, as well as minimum prices, apply to quota-barley only. Movement of non-quota barley by a producer to a feeder or feed mill is perfectly free within a designated area (province) and its price is based on supply-demand relationships with no interference by the Board.

* Assembly

The assembly of barley to satisfy the demand in eastern Canada was organized on the same principles as the delivery of wheat and governed by the quota system. Upon delivery of a quota, the producer received an initial payment. Administrative procedures, movement to Eastern terminals, the shipping order system, etc. were identical with those already described in the context of wheat marketing.

* Pricing

Pricing of barley to buyers appears to have been an extremely difficult process. The Board has sold rather limited quantities of barley to foreign markets. It appears that the Board was not interested in lowering its barley prices on the international market because the sale of additional quantities would not have compensated fully for losses resulting from the lower price in 1968-1969. It was inconceivable for the CWB to compete with French barley subsidized by the combined Treasuries of the Common Market. In other words, the price and quantity of Canadian barley in foreign markets were set at a level at which the Board believed they would maximize returns to farmers from sales in foreign markets. A similar procedure was apparently followed for the feed market in eastern Canada. Based on the competitive position of Canadian barley vis à vis American corn and taking into account tariff protection and transportation, storage, and distribution facilities costs at the Lakeheads, a price likely to maximize returns to prairie producers was set.

The following price ranges were reported by the CWB for barley:

- Monthly Wheat Board asking price for No. 1 feed barley basis in store in Thunder Bay March 1969 February 1970: 97 7/8 - 101 1/2 cents/bushel.

- The price of barley for export (1969 to 1970)

  a) In store Thunder Bay 73 3/34 - 77 cents/bushel;

  b) In store West Coast 77 - 94 cents/bushel.

The price difference between Thunder Bay and West Coast ports appear to be influenced primarily by the cost of shipping from the two points to foreign countries. The CWB took advantage of this opportunity and charged higher prices for shipments in West Coast ports.

* Control Functions

The control functions of the system (interprovincial trade, movements to terminal elevators, supply of the trade in

eastern Canada, and exports) are in the hands of the CWB and the Board of Grain Commissioners

* Winnipeg Grain Exchange

The Winnipeg Grain Exchange is an instrument of trade in barley futures. The limitations imposed by the CWB are severe. Nevertheless, the Exchange has adjusted to the conditions and uses the opportunity to the satisfaction of its customers, mainly speculators and eastern feeders.

Evaluation

* The market for barley is significantly different from the wheat market. The domestic, not the export market, has dominated price making and movements of feed grains because the livestock industry depends on steady, reliable supply at reasonable prices. Otherwise, imports of corn would simply take over the market. Thus, the Board applied a procedure of price and market differentiation to the greatest extent. In foreign markets limited quantities were sold at prices which maximized income. It appeared profitable to keep this price fairly high because it was believed that a lowering of prices would not result in appreciable increases in sales. For very many years quota barley for export commanded higher prices than locally sold grain.

On the domestic scene price discovery became more difficult because of the division of the barley market into quota and non-quota grains. The geography of Canada makes it possible to have differentiated markets for feed grains, and the Board took the opportunity to establish a price and income maximizing procedure for sales to Eastern markets. The feed freight assistance payment made the administration of this scheme even more effective. Price discovery and price making were influenced primarily by prices of feed grains, particularly corn on the Chicago Board of Trade, because the Winnipeg Exchange, artificial as it is, could not provide guidance for reasons outlined above.

In assessing the efficiency of Board pricing of barley, it should be stressed that there is a correlation between the quantity of

barley sold and the price of non-quota barley. The more barley sold through Board channels, the narrower is the gap between the quota price and the price in the local free market. To abolish the Board's control over export of feed grains would not guarantee an increase in the quantity of barley Canada can sell abroad, except in the case of substantial lowering of prices. Reasons leading producers to believe that a Board will assure higher returns in the long run by collective marketing of wheat apply equally to barley, where market differentiation and a multiple price system may be the best policy to increase total revenue to grain producers.

Additional problems involving barley marketing and evaluation of said marketing system demand special attention to the maintenance or abrogation of the Board's supplying and pricing of barley for the eastern markets. Feed freight assistance, a form of government subsidy from which both western producers and eastern feeders are supposed to benefit, greatly distorted the comparative advantage in producing livestock and poultry.

* Risk bearing in barley trade is complex and reflects the diversity of marketing channels.

- Regarding the quota - barley moving into foreign markets, the problem of risk bearing is circumvented and solved identically to wheat. This is true for functions performed under CWB rules. Exporters or foreign buyers are free to participate in the Winnipeg futures market and hedge their transactions in ways similar to the open market system.

- The greater flexibility in pricing feed barley for the eastern market on a quota basis and the superimposed futures market in Winnipeg pose rather difficult questions concerning risk and hedging. In this scheme the barley producer reaps all the benefits of board marketing: equal participation in the market, pooling of prices and revenues, minimum guaranteed prices, and risk taking by collective action as directed by the Board. The eastern feeder, on the other hand, may decide to participate in the futures market in Winnipeg and hedge, thus reducing the price risk.

- Barley and feed grains are sold locally for cash. Participants do not ordinarily use the futures market except for occasional speculation.

* Futures trading at the Winnipeg Grain Exchange provides a partial outlet for hedging, price discovery, and speculation in the commodity.

Supply, transportation and storage at terminal elevators are the responsibility of the Board. Barley futures show inverses that may be the result of "artificial shortages" of the commodity in eastern elevators. It is not clear to what extent these shortages are caused by the CWB's restrictions on shipping orders and to what extent the trade developed temporary squeezes in the Winnipeg futures markets. In the light of past experience, the usefulness of the system is very limited and the justification for its operation doubtful. A recommendation by the Task Force for improving this situation involved compulsory daily hedging of its sales by the CWB, a procedure which is difficult to comprehend and probably impossible to administer.

* An evaluation of the efficiency of the barley marketing system must include what has been said in relation to wheat.

- Movement and storage of barley is subjected to the same rules as wheat. At times the handling of smaller quantities of specific grades contributes to increased difficulties in transportation, and the commodity takes up too much space in port terminals. Increases in quota deliveries and increased handling of barley through Board channels may lower the actual costs of marketing barley. A great part of the barley and feed grains sold directly to users bypasses the expensive system of handling, storing, and transporting grain, perhaps to the benefit of the overall economy of the grain trade.

- Servicing established customers overseas and in the domestic market has had high priority in the system. Except for research done by universities, CDA and the Board of Grain Commissioners, very little work has been done in further developing of barley production and marketing.

THE CANADIAN WHEAT BOARD AND RAPESEED MARKETING

It is evident that the CWB has concentrated its efforts on selling wheat. Until 1970, it regarded rapeseed as a commodity produced in small quantities involving relatively few farmers and even fewer traders. Because of the control system, which put the Board in charge of storing and moving grain, the Board had to allocate quotas and some shipping orders without which marketing of grain in Canada would be impossible. The Board performed this function, marginal to its central operation, on a conciliatory basis without remuneration. Rapeseed production and marketing were apparently too slight to affect its operations seriously; consequently, the Board left the whole matter to the open market. Quantities delivered were not troublesome and did not occupy too much space in the elevators. Administrative costs were minimal.

The rapidly expanding world demand in oilseeds has coincided with a drastic decline in the competitiveness of Canadian wheat. This has created favourable conditions for marketing Canadian rapeseed. The Board now faces a situation where adjustments in the marketing system are mandatory. Serious thought should be given to the possibility of genuine competition among grains (wheat, barley, feed grains, oilseeds) in international as well as in domestic markets and to instituting flexible arrangements for resolving problems associated with moving and storage.

For this purpose, consideration will be given to marketing functions that the CWB could take over and to possible effects of Board marketing on stakeholders in the rapeseed business.

* Rapeseed Marketing Through the Canadian Wheat Board

The objectives of the Board marketing of rapeseed are identical to those outlined for wheat and feed grains. It was observed how differently the marketing of wheat has developed from marketing of feed grains. The CWB has recognized some of the basic differences between the two commodity groups. In the case of rapeseed marketing, functions of the Board may assume features of both the wheat and the barley system now in existence. Rapeseed is primarily an export commodity, and requirements of the export trade will be paramount in establishing marketing procedures.

However, rapeseed marketing lacks certain essential features of wheat marketing. Instead of an international agreement

major buyers participate in regional arrangements of which the most important is the Yaoundé agreement between the EEC and the French speaking countries in Africa south of the Sahara. Consultations on the possible establishment of an intergovernmental consultative committee were held in a special session of the Study Group on Oilseeds, Oils and Fats and the FAO of the U.N. in 1970.

The possible effects of Board actions on participants, producers, and stakeholders in marketing are outlined below.

* The Producer

The CWB would not interfere in the decision making process regarding rapeseed production. Rapeseed in a relatively new crop. Its patterns of production are not fully established, and its long-term comparative advantage in relation to other crops (wheat, barley, and alternative land uses) on the individual producer's level is unknown. The Board may indirectly influence farm production through the quota system and the initial price.

How quota regulations operate was outlined above. When plans for the production of rapeseed with low erucic acid have been finalized, special provisions may have to be made to allow for the delivery of this grain to domestic crushing plants and country elevators for export. Until this time comes rapeseed quotas will be governed by the same rules as other specialty markets under the Board regulations (selected barley, oats, and rye delivered to distilleries and flaxseed delivered to Canadian crushing plants).

Election of board marketing assumes that participation in a pool is the marketing system preferred by producers. At the present time, rapeseed is not a Board grain, and no provisions have yet been made for setting a minimum or initial payment. If the CWB decided to market rapeseed as it markets other board grains, a decision regarding the initial payment or minimum price a farmer will receive on delivery to the country elevator would have to be made.

* The Country and Terminal Elevators

The facilities of the elevator system, already contracted as agent of the Board, would be available to rapeseed producers. Handling charges set by the Board of Grain Commissioners, storage, and other costs would be reimbursed by the CWB.

* Transportation

Shipping orders as issued would govern the movement of rapeseed into terminal position.

* Exporters and Foreign Buyers

Board marketing of rapeseed could affect shippers and exporters. Instead of buying in an open market, exporters would face a single supplier of rapeseed - the CWB. They could apply methods developed for marketing wheat and feed grains for direct sales to foreign governments in countries where all imports are controlled by government agencies. In case of direct government-to-government sales, shippers and exporters could perform some functions as agents of the Board.

* Domestic Users of Rapeseed

There are two possibilities for marketing rapeseed domestically:

- Free and open market conditions would be possible as long as favourable conditions prevail in the world market, no long-term supply rationing is necessary, and no substantial carry-over from year to year is likely.

- Marketing solely through the Board is advisable if and when temporary oversupplies and low prices in international trade seem possible. In such a situation, if the Board does not exercise its control functions, the domestic market could become distorted because some farmers might be inclined to sell at any price. The result would be very great price fluctuations, instability in the industry and particularly low average returns to producers.

- In the light of past experiences in marketing through a board, it seems advisable for the Board to become the sole seller from the outset. Both farmers and crushers would likely benefit equally from the relative stability created by such an assignment.

* The Wheat Board Pricing Procedure for Rapeseed

Pricing of rapeseed by the CWB would have to be based on observations of a great number of places where rapeseed and substitute commodities, particularly soybeans, are traded. The combination of the cash and futures markets in Chicago for soybeans, soybean oil, and meal provides a reliable guide for pricing rapeseed. Additional information would be obtained from contacts with governments who are buying or selling oilseeds, from international meetings and from research into world consumption and production trends in oilseeds. This kind of price discovery is no different from the price discovery mechanism for wheat and barley traded in international markets.

* Pooling

Annual pooling of returns is the practice applied for commodities presently sold through the CWB. This scheme could also be applied to rapeseed. Because of greater seasonal changes in oilseed prices, the concept of a term pool has been suggested (a pooling arrangement with a time period less than a crop year).

* Control Functions

The Board of Grain Commissioners and the CWB would control the marketing of rapeseed as is the case with wheat and barley.

* The Winnipeg Grain Exchange

With the CWB as agent for the producers and sole seller of rapeseed, the role of the Grain Exchange would have to be significantly changed. The CWB would have to assess the proper role for the futures trade with respect to rapeseed marketing. The Grain Exchange could remain an outlet for hedging and speculation in the same way that barley futures presently fill this role in feed grain marketing.

Evaluation of the System of Rapeseed Marketing Through the CWB

In evaluating the system of rapeseed marketing through the CWB, one must consider those factors which first persuaded producers to request and support board marketing of rapeseed. Among these are:

* The method as outlined gives equal and equitable access to markets to all rapeseed producers and can pool returns from the commodity and grade. Pooling on a shorter than one year term base is possible. The only problem arising from a pool shorter than one crop year is the rather arbitrary decision made regarding the unsold quantity of rapeseed in the event of transfer to a new pool. This is not, however, an unsurmountable difficulty.

* The CWB as sole seller of rapeseed holds greater countervailing power vis à vis buyers in both domestic and international markets. Under the present open market system, the individual farmer is a price taker with no power whatsoever. The market where the farmers sell rapeseed is noncompetitive, the street price being fixed by a committee in Calgary and Winnipeg. Added to this are the restrictions associated with the quota system. Board marketing does not introduce competition harmful to rapeseed producers as a whole. It would instead concentrate the supply of rapeseed on a larger scale and would attempt to benefit from its bargaining power, particularly when contracting the supply over an extended time period and in international markets.

* If the CWB took over the marketing of rapeseed, it would supplant the function of the futures market of the Winnipeg Grain Exchange and seek a system of price discovery providing for a close relationship of rapeseed to other oilseeds, particularly soybeans and oils which compete with rapeseed oil. It appears that price fluctuations in oilseeds cannot be avoided, but greater stability can be attained by eliminating the artificial futures market. The selling price of rapeseed to exporters, foreign buyers, and domestic crushers can be set at a level making it competitive with other oilseeds. As there are no internationally binding agreements involving rapeseed at the present time, the CWB could adjust the selling price when necessary. Board marketing generally tends to stablize prices over longer periods of time. This would hopefully also be the case with rapeseed, for relatively stable prices are conducive to marketing a commodity in international trade.

  On the farm level, day-to-day changes in the price of rapeseed would be unnecessary and would not be present if the CWB took over the marketing of the commodity. The Board could set the quota and the initial price well ahead of time and equalize returns

when final payments are made. This also applies for pool periods shorter than one crop year.

If the barley marketing system could be applied the CWB could continue to use the information, futures prices, and open contracts of futures trading on the Winnipeg Grain Exchange as supplementary indicators for its own marketing strategy. It is likely that the Board would encounter difficulties similar to those presently experienced in rapeseed and barley futures trading; namely, thinness of the market and consequent squeezes and the persistent problem of inverted futures prices. Futures trading in a situation where the Board was only supplier of cash grain would be neither necessary nor able to fully operate. It may, however, be an outlet for some hedging and speculation.

* Because board marketing circumvents the problem of risk bearing (the CWB owns the rapeseed delivered to the country elevator until it is sold to a foreign or domestic buyer), futures trading for purposes of hedging would be of very little use.

* As far as transportation and handling are concerned, the Board and its agents are already in charge. Until recently, shipping orders were issued by the Board only after proof of a sale and nomination of a vessel. This restriction has been removed. It would be the responsibility of the Board to allocate the transportation and handling system shared by wheat, barley, rapeseed and other grains on an equitable basis.

The CWB could service established customers, seek out new buyers, and engage in product development and promotion because they would have the financial resources. Foreign buyers and users of rapeseed could be invited to visit Canadian producers, rapeseed handling facilities, and manufacturers using rapeseed.

* Organizational setting for Rapeseed marketing of the CWB
In evaluating the CWB system for rapeseed, however, it must be recognized that the present organization setup lacks certain features essential to a functional marketing system. As an agent of the government, the Board is accountable to it and not to producers. The Board needs to improve communications with rapeseed producers. Because rapeseed has just started to move into the international market on a large scale under favourable conditions, co-operation between producers, the trade, and the CWB is essential, particularly because temporary setbacks in the development of an agricultural commodity are inevitable.

A PRODUCER CONTROLLED RAPESEED MARKETING AGENCY

The Concept of an Agency

For descriptive purposes only the hypothetical rapeseed organization will be called a market agency, mainly to distinguish it from either a board or open market operations. There are at present three different ways to establish such an agency:

* An organization patterned after the CWB or the concept of public utility legislation;

* A Producer Marketing Board or Commission or Agency for rapeseed controlled by the producers;

* An agency co-ordinating four provincial rapeseed marketing boards - Alberta, Saskatchewan, Manitoba and British Columbia.

The selection of one of these three alternatives depends on the objectives of the agency, on functions the agency wants to perform, and on the proposed structure of the agency.

If the objectives outlined in the section pertaining to wheat and feed grains are paramount to rapeseed producers, the agency should assume the main features of the CWB. This does not necessarily mean that rapeseed producers must accept features of CWB which they consider detrimental to their interests. Farmers and the trade may agree on functions but reject the principle which holds the Board accountable solely to the federal government. They may reject a government rapeseed board in favour of a producer marketing board

or agency for rapeseed. Stakeholders with more limited objectives for the rapeseed business may prefer a producer marketing board with limited marketing functions.

What are the objectives of a rapeseed agency, and what are the appropriate marketing methods to be implemented? It may be assumed that the major objectives of rapeseed producers resemble those of wheat and feed grains producers prior to the establishment of the Board. Producers are fully aware that a system without board rules and regulations does not guarantee equal access to markets. In a situation of oversupply, the individual producer may be forced to sell his product at any price. The producer knows that his bargaining power compared to of large-scale buyers is infinitesimally small or nonexistent, and he fears exploitation.

An agency of rapeseed producers with discretionary power to establish, maintain, or change the rapeseed marketing system might be the appropriate tool for an alternative marketing system. The following points must be considered:

* If equal access to markets and pooling were the only objectives, a private pooling arrangement would suffice if supported by all producers, and the Agency could sanction the open market system and concentrate its efforts on making the system operate more competitive than it is presently. The Agency could concentrate on improving trade on the Winnipeg Grain Exchange by restricting day-to-day price changes, requesting reporting similar to the requirements of the Central Exchange Authority in the Chicago Board of Trade futures, and otherwise upgrading the market. Furthermore, the Agency could be a more powerful agent in making decisions involving the CWB and institutions in provincial and federal governments. On the other hand, such an Agency would have to keep the performance of marketing functions on its own account within bounds. Otherwise it would destroy the free play of supply and demand, thus negating principles to which the Agency initially subscribed when supporting the open market.

  An Agency could be very active in a collective effort by all stakeholders in rapeseed marketing to promote the commodity in domestic and international markets and could provide funds for research into further development of rapeseed production and utilization.

* If a pooling system similar to the CWB becomes the objective and international marketing conditions such as in wheat become the prevailing pattern of trade the Agency could apply price differentiation, bilateral and multilateral arrangements and methods of marketing generally subscribed under the term "orderly" marketing.

The Agency in Practice

It has already been indicated that the Agency would be free to decide what the rapeseed market should look like and who should perform the various marketing functions. The Agency could accept certain institutions in their present form or, if dissatisfied with the institutions' conduct or performance, could request specific changes. If the Agency concludes that existing institutions are nonfunctional it could either make contractual arrangements with firms or other agencies or perform the marketing function itself.

How would such an arrangement affect stakeholders in rapeseed production and marketing?

* The Producer

Each producer would participate in the system and would be assured access to the market and freedom to participate on equal terms with other producers in each pool instituted by the Agency. For control purposes and allocation of quota in the case of pooling, a proper registry of producers is required. The registry of producers would also serve the purpose of establishing communication between the Agency and the producers. The Agency could provide essential information regarding supply-demand in the domestic and foreign markets so that producers would be in a position to keep their planting in line with the prospective demand. The Agency would not allocate production.

* The Country Elevator

To achieve higher operational efficiency, the Agency could designate country elevators for taking delivery of and handling rapeseed and consider direct loading of boxcars. Only elevators already licensed by the Board of Grain Commissioners should be

be considered. Special designation by the Agency could lower costs of handling, storage, and transportation, and the licensing could be co-ordinated with the block system of transportation carried out by the CWB. On delivery of rapeseed, the farmer could be paid an initial payment set by the rapeseed and grade pool of the Agency.

* The Terminal Elevator

Proper merchandising at terminals requires that the position of rapeseed within the total system of grain handling receive equitable treatment. Therefore, a long-term agreement between the Agency and the CWB providing for annual adjustments should be reached. Such an agreement should be negotiated with government assistance and supervision.

To eliminate the shortage of stocks in terminal positions in Vancouver and Thunder Bay contractual arrangements could be made to have clean rapeseed transported from country and inland terminal elevators, and consideration could be given to contracting of some terminal elevators for the sole purpose of handling rapeseed.

* Domestic Crusher

The Agency would be in a position to decide on a satisfactory pattern of rapeseed marketing for the domestic crusher. The most appropriate alternative to the present system would be the sale of rapeseed to crushers by the Agency. To channel all sales through the Agency is the only way to protect the producer; otherwise, in the case of substantial oversupply of rapeseed, some producers in desperate need of cash might accept prices which could ruin the market. An open market for raw materials at distress prices is also damaging to rapeseed crushers; continuity of supply at reasonable prices contributes in the long run to sound business. The Agency would have the power to apply multiple pricing and so could set domestic prices to crushers on a level competitive with other oilseeds without jeopardizing the economic position of the primary producer or the domestic user of rapeseed.

* Exporters

Because the Agency would become the sole supplier of rapeseed in both the foreign and the domestic market, shippers and exporters would be able either to buy rapeseed from the Agency or to function as agents. In the case of direct sales by the Agency to foreign buyers or governments, shippers and exporters might perform some marketing functions on a contractual basis.

* Foreign Buyers

The number of foreign buyers is now smaller than it was and is decreasing. At the same time, the buying of agricultural commodities by governments and government agents is on the upswing. Thus, the Agency would be in a favourable bargaining position to offer rapeseed at the highest and at the same time at competitive prices in international trade. The foreign buyer or government would probably be interested in long-term trade arrangements for rapeseed involving quantities the present system could scarcely handle because of the complexity of intergovernmental trade. Both private and government buyers of rapeseed in international trade have indicated the desire for long term rapeseed contracts (for example, as requested by Japanese buyers). The foreign buyer or government might be better served by an Agency in view of prevailing conditions in world trade.

* The Canadian Wheat Board

The Agency should in no way duplicate any rapeseed marketing functions that the Wheat Board can better perform. The Agency could assume a fair share of the functions now performed by the CWB. A formal agreement between the Agency and the CWB regarding the functions to be performed could be made. This pertains especially to the question of allocation of quotas as well as to such additional functions as representation in foreign markets where the Agency was not directly represented and assistance in market intelligence research and development.

* Transportation

The Agency should negotiate with the CWB for a fair share of the transportation facilities and other functions that affect the

movement of rapeseed; space in port terminals, handling, etc. The Agency could also co-operate with the Canadian Transport Commission in research and development of bulk handling facilities for rapeseed oil and meal.

* The Winnipeg Grain Exchange

The Winnipeg Grain Exchange system could be retained. Ample time should be given to the Grain Exchange to reorganize and improve on the functions it could perform in an Agency marketing system.

* The Board of Grain Commissioners

The functions of the Board of Grain Commissioners would not be affected under the proposed Agency marketing system. Specific rapeseed needs regarding the licensing of elevators by the Agency, in addition to the usual licensing by the Board, should be considered.

* Government

Involvement of Government is necessary to bring about a balance wherever conflicting commodity interests or institutional objectives prevent equitable allocation of shared facilities in the complex of the grain trade in the country.

Evaluation of Rapeseed Marketing Through an Agency

Current Concerns

* The present system of an open market with futures trading and speculation on the Winnipeg Grain Exchange could be changed. Present complaints by producers, consumers, merchandizers, and foreign buyers concerning the market's consistent malfunctioning, particularly regarding inverted futures prices, excessive price fluctuations, spreads between futures prices and street prices, and delivery points, would become inappropriate because of the agency taking over the major responsibility for pricing of rapeseed, thus supplanting the price discovery on the Winnipeg Grain Exchange.

Defined Criteria

* Selling Price

To determine the selling price for rapeseed, the Agency would act as trustee for all producers and could apply collective bargaining. In evaluating a marketing system, the method of price discovery deserves special mention. The aim of the Agency would be to obtain the highest average price for the sale of the whole crop. The Agency would have to observe critically all price and commodity movements at all major trading centres and in government-to-government arrangements.

Commodity specialists in government, in Boards, and in the trade in all countries, both exporters and importers of agricultural commodities, have accumulated experience in large-scale handling and trading of agricultural commodities. The expertise necessary for the successful operation of a rapeseed Agency is available.

Agency supply management to regulate the rate of flow or rapeseed to the markets, so that temporary oversupplies and subsequent dumping can be avoided, is an integral part of the price making process. Supply management in this case includes the setting aside of a minimum carry-over to facilitate continuity in marketing.

In evaluating the Agency's method of price discovery, special attention would have to be given to the closeness of the competitive price level of rapeseed to Chicago soybeans, oil, and meal, as well as to the c.i.f. prices in the Common Market and Japan. To accomplish this objective, the Agency would require representatives or correspondents at the major competitive markets for oilseed. In addition to the day-to-day intelligence to be gathered, research in production and consumption trends for oilseeds in other countries would be essential to the long-term development of Canadian rapeseed prices and production patterns. Finally, the Agency could actively participate in the formulation of the Canadian trade and commercial policy and would thus know the general framework of trade and its impact on prices of export commodities.

The Agency would have the power to apply product and price differentiation. Different prices for different uses of the commodity, for different regions, and for different forms of the product would be determined. Quantity discounts and term or long run contractual sales could be provided.

Canadian rapeseed presently supplies a very small percentage of the world's production and trade. For the time being, its price will have to conform to the prices of dominating oilseeds in world markets. Nevertheless, Canadian production may increase, in which case the Agency would have to participate in the price making process by representing rapeseed producers at major conferences where trade conditions and prices are negotiated.

* Risk Bearing

The Agency would solve this problem because all firms involved in marketing rapeseed in Canada would function on account of the Agency. Because these firms would not become owners of rapeseed, no price risk would be involved. Thus, the operation of a futures market would become redundant. In a final analysis the risk is born by producers through the Agency.

* Marketing Efficiency

The Agency's possibilities for improving rapeseed marketing efficiency are the following:

- Movement and Storage

  By designating elevators specifically for rapeseed handling and storage, improvements can be made, possibly leading to lower overall marketing costs.

- Servicing Established Customers, Overseas and Domestic

  In the initial stages of setting up the Agency, servicing established customers would have to be arranged by contract with firms presently dealing with foreign buyers. However, the Agency could eventually establish a service function abroad and at home. The Agency might benefit here from the CWB's experience.

- Finding and Maintaining New Customers

  Rapeseed may face conditions where large-scale government promotion is the way to open new markets. This is particularly true because agricultural commodities are increasingly regulated by governments or governing agencies. Collective efforts by

the Agency to develop new markets might become an important function.

- Product Development and New Uses

  The Agency could fill the present void in product development for rapeseed. Possibilities for such development are clearly apparent in the development of soybeans. The product development and promotion of the soybean in the U.S. and abroad did not result from the efforts of an individual merchandising firm. Rather, breakthroughs were accomplished through collective action with considerable support from the United States Department of Agriculture. A similar program could be carried out by an Agency with the support of the Canadian Government.

- Complexity

  Marketing rapeseed by an Agency is straightforward, understandable, and well defined. Such a marketing system is characterized by clear processes and stated responsibilities.

- The operational efficiency of marketing through an agency could result in lower costs per bushel of rapeseed handled compared with the costs of the functions performed in the open market.

* Marketing through the Agency could facilitate the participation of rapeseed producers in the proposed system of farm price and income stabilization as a joint effort of the Government and the farming sector of the Canadian economy.

The Structure and Operations of the Agency

The Canadian Rapeseed Agency would be a Producers Marketing Organization. It could include (a) a board of Directors and (b) the management team. The board of Directors would be responsible for determining the general policy of the Agency and supervision of the management. The Board should have a reasonable number of members representing rapeseed producing areas elected by bona fide rapeseed producers registered with the Agency. Representation should be proportional to the number of producers in a province. Each Prairie province should be represented

regardless of the number of producers registered. The terms of office of the Board Members should be limited.

Representatives of the grain trade could be invited to attend meetings in an advisory capacity.

A draft constitution and rules for the election of Board members should be prepared by farm organizations.

The management team would consist of a general manager and staff deemed necessary to operate the Agency. The general manager and staff would be employees of the Agency and responsible to the producers represented by the Board.

Financing of the Agency depends on what functions it would perform. If the Agency decided to maintain the futures market as its basis for marketing, a levy might suffice. If the Agency decides that board marketing must be introduced, its functions would change in that the Board would become a trustee and an agent. Expenditures involved would then have to be deducted from revenues obtained by a procedure similar to that used by the CWB.

Conclusion

The establishment of an Agency as outlined in this paper is an alternative to the known systems of agricultural marketing in Canada. This alternative does not imply the rejection of all aspects of the present marketing system. It must be pointed out that the present market system and the CWB system contradict. Compromises between the two are either transitional stages or are artificially maintained for specific purposes. The establishment of an Agency as outlined here attempts to provide the rapeseed producers with the means to offset the market power they presently face.

GLOSSARY OF TERMS

Bushel	-	for rapeseed, 50 lbs.; equivalent to 20 lbs. of oil and 28 lbs. of meal; 1 short ton contains 40 bushels; 1 long ton contains 44.8 bushels; and, 1 metric ton contains 44.1 bushels
Cash Basis	-	the difference between the futures market price and the cash market price
Cash Market	-	transactions involving immediate possession of the commodity
Cash Sale	-	a sale on the basis of immediate delivery for a specified price
C.I.F.	-	cost, insurance, freight
Deferred Future	-	a futures contract for one of the delivery months later than the nearby future
Flat Price	-	a sale made for a specified quantity of rapeseed at a price, either fixed or based on a futures price, for delivery on defined dates
F.O.B.	-	free on board vessel
Long Hedge	-	the purchase of a futures contract with option of taking delivery of the commodity
Nearby Future	-	a futures contract for the most immediate delivery month
Short Hedge	-	the sale of a futures contract for the delivery of a commodity
Speculator	-	an unhedged trader in the futures market
Street Price	-	the price received by a producer at his delivery point
Ton (short, long, metric)	-	1 short ton = 2,000 lbs. 1 long ton = 2,240 lbs. 1 metric ton = 2,204.6 lbs.